

RatingsDirect®

Summary:

Arlington Independent School District, Texas; School State Program

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Table Of Contents

Rationale

Outlook

Summary:

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Credit Profile

US\$34.275 mil unlt'd tax sch bldg bnds ser 2018 dtd 07/01/2018 due 02/15/2043

<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 2018 unlimited-tax school building bonds. At the same time, we affirmed our 'AA' underlying rating on the district's outstanding parity debt. The outlook on all ratings is stable.

The 'AAA' program rating reflects our assessment of the district's eligibility for, and participation in, the Texas Permanent School Fund guarantee program.

The 'AA' underlying rating reflects our opinion of the district's:

- Stable and diverse economy with direct access to and participation in the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA);
- Historically very strong financial position; and
- Management practices we consider "good" under our financial management assessment (FMA) methodology.

We believe the strengths are offset, in part, by the district's moderate overall debt burden, which we expect to remain near current levels due to ongoing capital needs of the large district.

An unlimited ad valorem property tax pledge secures the bonds. Bond proceeds will be used to fund various capital projects.

Economy

Arlington ISD serves an estimated population of 380,740 in eastern Tarrant County, approximately midway between Dallas and Fort Worth. It serves the cities of Arlington, Dalworthington Gardens, the portion of Grand Prairie in Tarrant County, and the town of Pantego. At 96% and 90% of national averages, respectively, the district's median

household and per capita effective buying incomes are good, in our view. At \$69,786 per capita, the 2018 market value totaling \$26.6 billion is, in our opinion, strong. Net taxable assessed value (TAV) grew by a total of 24.6% since 2016 to \$26.6 billion in 2018. The 10-largest taxpayers make up an estimated 6.3% of net TAV, which we consider very diverse.

The local economic landscape is diverse and includes various industries such as education, entertainment, retail, and manufacturing. The district is one of the area's leading employers, along with the University of Texas-Arlington, General Motors Corp., Texas Health Resources, and Six Flags Over Texas. Residents also have access to larger employment bases throughout the Dallas-Fort Worth-Arlington MSA.

Tourism also plays a prominent role in the local economy with Arlington being home to several major recreational attractions such as 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.

Following the economic downturn, the district's property tax base rebounded with year-over-year increases since 2010. Officials report the area is continuing to see expansion of new businesses, along with incoming new developments. There are currently several major commercial developments, including the \$250 million Texas Live! project, a mixed-use district which will feature thousands of square feet for restaurants, retail, and entertainment. The venue will be built in conjunction with Globe Life Field, the new baseball stadium of the Texas Rangers. Representative of growth across the Metroplex, conservative projections estimate AV growth will continue to increase by 5% each year for the next two years.

Finances

A wealth equalization formula, based on property values and average daily attendance (ADA; property wealth per student), determines state funding for all school districts. Therefore, increases or decreases in ADA (enrollment) can lead to increases or decreases, respectively, in the amount of state revenue a district receives. Enrollment for 2018 totaled 61,076, decreasing in each year from 2014 to 2018.

The district's available fund balance of \$189.9 million is very strong, in our view, at 37% of general fund expenditures at fiscal year-end (June 30) 2017. The district reported a deficit result of 1.0% of expenditures in 2017.

Arlington ISD's financial position has historically been very strong, with available reserves sustained above 35% for the past three fiscal years. Officials report the fiscal 2017 deficit year-end result was a planned drawdown of surplus reserves to fund several one-time capital expenditures totaling approximately \$19.2 million. These expenditures include \$9.3 million of funds previously committed to construct an addition to a high school; \$9.4 million for land acquisition for new fine arts and athletic facilities; and \$464,946 for energy-saving updates to the district's agricultural science center. Excluding the planned deficit, the district would have achieved an operating surplus of approximately \$13.8 million.

The adopted budget for fiscal 2018 has a deficit of approximately \$29.4 million, primarily due to the planned use of reserves to complete the addition at the high school. The district's board committed approximately \$17.1 million of surplus reserves for the project which began construction in fiscal 2017. The fiscal 2018 budget includes approximately

\$10.4 million of the original appropriations to account for the completion of the project. Officials report the district spent more than budgeted on the project in fiscal 2017 and therefore, expects to spend only around \$8 million in fiscal 2018 to complete the addition. Due to higher-than-budgeted AV and savings in payroll expenses from vacancies, officials indicate the district will likely end the fiscal year with a drawdown of approximately \$7.6 million in fund balance. Without the planned capital expenditures, officials make conservative projections for an operating surplus of approximately \$400,000 at fiscal year-end.

Officials report the fiscal 2019 budget will most likely show an operating deficit of \$28 million, and will not include planned use of surplus fund balance. However, based on the district's history of producing better-than-budgeted results, officials project actual results will be an operating deficit of approximately \$15 million and they expect to retain reserves at around three months of operations. While there are no current plans to hold a tax ratification election, officials indicate the district may seek voter approval within the next year to raise the maintenance and operations (M&O) levy to mitigate true operating deficits. The district's tax rate for fiscal 2018 is \$1.04 for M&O and \$0.328 for debt service.

Although, we expect the total fund balance to decrease due to the one-time use of committed reserves, we expect the district's available fund balance will remain very strong for at least the next two years.

Management

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

Management analyzes three-to-five years of historical data regarding enrollment trends, state school funding, and AV trends. In addition to internal projections, it also works with external sources, such as a demographer. Management provides the school board with monthly budget-to-actual reports, and the board can amend the budget as needed. 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, and details projects and phases for completion. The Citizens Bond Oversight Committee monitors the overall progress of the district's bond program. The district has a formal investment management policy and provides quarterly reports to the board. It also has a formal reserve policy which requires a minimum fund balance level of two months of operations. 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 (GO) debt.

Debt

Overall net debt is 4.8% of market value and \$3,378 per capita, which we believe to be moderate. Amortization is average, with 50% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 11.5% of total governmental fund expenditures (excluding capital outlay) in fiscal 2017, which we consider moderate.

Subsequent to this issuance, the district will have \$828.3 million of total direct debt outstanding and no authorized but

unissued debt remaining. Currently, there are no plans to issue additional debt within the next two years; however, officials indicate the district may seek a bond election within the next two years to address additional capital needs. The amount has not yet been determined.

We note that the district has two privately placed bonds, the series 2009 and 2014, which account for about 12.9% of its total debt outstanding. We do not view these bonds as contingent liquidity risks, as the bond documents contain neither nonstandard events of default nor any acceleration provisions.

Pension and other postemployment benefit liabilities

The district provides pension benefits to its retirees through the Texas Teachers' Retirement System (TRS), a cost-sharing, multiple-employer, defined-benefit pension plan. It also offers health benefits to retirees through the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing, multiple-employer, defined-benefit postemployment health care plan.

In fiscal 2017, the district paid its full required contribution of \$13.1 million, or 1.6% of total governmental expenditures, toward its pension obligations. It also contributed \$2.6 million, or 0.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2017. Combined pension and OPEB carrying charges totaled 1.9% of total governmental fund expenditures in 2017.

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's strong management practices will enable it to maintain its very strong financial position, with additional support from the broad and diverse local economy. Therefore, we do not expect to change the rating within the two-year outlook horizon.

Upside scenario

If the district retains structural balance, along with improvement in wealth and income indicators to levels commensurate with higher rated peers, and 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 continuing increases in operating or debt service costs, we could consider lowering the rating.

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