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Summary:

Mesquite Independent School District, Texas; General Obligation; School State Program

Primary Credit Analyst:
Oscar Padilla, Dallas (214) 871-1405; oscar.padilla@standardandpoors.com

Secondary Contact:
Brian J Marshall, Dallas (1) 214-871-1414; brian.marshall@standardandpoors.com

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Credit Profile		
US$74.51 mil unltd tax sch bldg bnds ser 2015E dtd 10/15/2015 due 08/15/2041		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' underlying rating and 'AAA' enhanced program rating to Mesquite Independent School District, Texas' series 2015 E unlimited-tax school building bonds. At the same time, Standard & Poor's affirmed its 'AA' underlying rating on the district's outstanding general obligation (GO) debt. The outlook on all ratings is stable.

The 'AAA' enhanced 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 that the district can use to meet debt service on bonds guaranteed by the program.

An unlimited ad valorem tax secures the bonds. Bond proceeds will be used to construct, renovate, acquire, and equip school facilities as well as purchase school buses.

The 'AA' reflects our view of the district's:

- Location and participation in the broad and diverse Dallas-Fort Worth metropolitan statistical area (MSA);
- Strong budgetary support from state aid; and
- Sustained very strong financial position with available reserves averaging 30% of expenditures in the last four fiscal years.

An offsetting factor is the district's growth-driven operating and capital pressures, coupled with limited revenue-raising flexibility, albeit currently sufficient, which is subject to voter approval.

Economy

Mesquite Independent School District School serves an estimated population of 172,685. In our opinion, median household effective buying income (EBI) is good at 97% of the national level, but per capita EBI is adequate at 78%. The district's total $6.7 billion market value in 2016 is adequate, in our view, at $36,588 per capita. Net taxable assessed value has grown by a total of 10.9% since 2014, to $6.7 billion in 2016. The 10 largest taxpayers make up an estimated 5.7% of net taxable assessed value in the tax base, which we consider very diverse.

The district is on the eastern border of Dallas, which provides convenient access to the deep and diverse employment base in the Dallas-Fort Worth MSA. Mesquite is a largely residential city with active retail, industrial, and health care industries.

Finances

Enrollment has increased roughly 6% since 2012, to 40,510 in 2015, an aggregate increase of 2,265. Management projects the same rate of enrollment growth for the next few years but is conservatively budgeting for enrollment to increase by 250 students per year, or slightly more than 0.5%. However, district officials anticipate growth to trend higher with an increase of 500-600 students per year. By 2021, the district's demographic study suggests enrollment could increase by 5,000.

The district's available fund balance of $91.3 million is very strong, in our view, at 30% of operating expenditures at fiscal year-end (Aug. 31) 2014. Reserves as a percentage of expenditures, while still very strong, decreased slightly overall from 2012 through 2014, despite three consecutive general fund surpluses. For fiscal years 2012 through 2014, operating surpluses were 1.8%, 1.6%, and 2.0% of expenditures, respectively.

Available reserves have averaged 30% of expenditures in the last four fiscal years. For fiscal 2015, management anticipates adding approximately $2.8 million to reserves to maintain its fund balance at 30% of expenditures. State aid and local property taxes accounted for 77% and 22.6%, respectively, of general fund revenue in fiscal 2014. Federal sources totaled only 0.5% of general fund revenues. The district's fiscal 2016 budget is effectively balanced without the use of available resources. The fiscal 2015 and 2016 property tax rates were unchanged from fiscal 2014 at $1.41. The operation and maintenance tax rate is set at $1.04 per $100 of AV and the debt service rate is 37 cents.

Management

We consider the district's management practices "strong" under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded and likely sustainable. We revised our score to "strong" from "good" to reflect the district's development of a long-term financial plan with revenues and expenditures projected in line with with meaningful assumptions regarding assessed valuation growth, enrollment, and instructional cost. While the state's school finance mechanism is subject to change--by legislative action or pending litigation against the state--there is flexibility on the revenue side to modify assumptions appropriately. Other highlights include management's use of historical trend analysis to project revenue and expenditure, and conservative budgeting practices. Management provides monthly reports on the state of the budget at school board meetings, and the board can amend the budget at any meeting. Management has a formal policy and monitors district investments and provides reports to the board quarterly in line with the state's conservative investment guidelines. While the district does not have a formal debt management policy, officials institute practices that manage the issuance of debt to minimize the tax-rate impact on district residents and maximize savings in the case of refunding bonds. Debt maturities are designed to match the life of the asset being financed. The district has issued variable-rate debt and has entered into a swap agreement; periodic swap performance updates are sent to the board. The district does have a formal swap management policy to govern existing and future use of derivatives. The capital improvement plan corresponds to the district's anticipated bond election. The plan has identified costs and projects to be funded through 2020. We understand the district will continue to update the plan according to its project schedule in subsequent fiscal years and update it based on future needs as part of its long-term planning.

Debt

Overall net debt is moderate, in our opinion, at 6.1% of market value and $2,214 per capita. Amortization is average, with 54% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 11.1% of total governmental fund expenditures (excluding capital outlay) in fiscal 2014, which we consider moderate.

In May, the district's electorate overwhelmingly authorized a bond package totaling $280 million to support capital needs. Current estimates reflect a potential tax rate increase of no more than five cents to cover the additional debt service. The district plans to issue the authorized debt through 2020 in equal parts after the current issuance.

The district's variable-rate debt exposure is slightly less than 7.5% (audited fiscal 2014) of the total debt portfolio and the total amount of the variable-rate debt outstanding is hedged with a floating- to fixed-rate swap. The 'A-1' short-term rating on the district's series 2003A variable-rate bonds is based on a liquidity facility provided by JPMorgan Chase Bank N.A. that will expire on Dec. 13, 2016. This debt is hedged by a swap with JPMorgan Chase Bank to create a synthetic fixed-rate liability. Under the swap, the district is paying 4.458% and receiving floating interest based on the Bond Market Assn. index. The termination rating trigger for both parties is 'BBB', which we consider remote. The district does not carry swap insurance to cover the termination payment should a termination event occur. However, in our opinion, a termination payment, currently estimated at $6.3 million, would not pressure the district's liquidity position. According to the fiscal 2014 audit, the district's general fund had $8.6 million in cash and $96.3 million in investments; furthermore it has the option to issue bonds to cover the termination payment.

Pension and other postemployment benefit liabilities

In fiscal 2014, the district contributed its annual required contribution of $2.8 million, or 0.7% of total governmental expenditures, toward its pension obligations. The district also contributed $1.2 million, or 0.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2014. Pension and OPEB carrying charges totaled 1.0% of total governmental fund expenditures in 2014.

The district participates in the Texas Teachers' Retirement System (TRS), a cost-sharing, multiple-employer, defined-benefit pension plan. The state's contribution to the plan in fiscal 2104 totaled $13 million. For its retiree health care benefits, the district contributes to the Texas Public School Retired Employees' Group Insurance Program (TRS-Care), a cost-sharing, multiple-employer, defined-benefit plan. Contributions to TRS-Care from the state were $2.1 million in fiscal 2014.

Outlook

The stable outlook on the program rating reflects our view of the Texas Permanent School Fund's strength and liquidity. The stable outlook on the underlying rating reflects our view of Mesquite ISD's stable economic growth and sustained very strong financial position.

Upside scenario

While we do not anticipate it within our two-year horizon, diversified economic expansion leading to stronger wealth and income levels could provide upward rating potential.

Downside scenario

Although unlikely, the rating could be pressured downward if the district's financial position were to weaken materially or if its overall debt profile were to increase to a level no longer commensurate with peers.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of October 22, 2015)		
Mesquite Indpt Sch Dist GO		
Long Term Rating	AA/Stable	Affirmed
Mesquite Indpt Sch Dist PSF / CRS		
Long Term Rating	AAA/Stable	Affirmed
Underlying Rating for Credit Program	AA/Stable	Affirmed
Mesquite Indpt Sch Dist PSF / CRS		
Long Term Rating	AAA/A-1/Stable	Affirmed
Underlying Rating for Credit Program	AA/Stable	Affirmed
Mesquite Indpt Sch Dist PSF/CRS		
Long Term Rating	AAA/Stable	Affirmed
Underlying Rating for Credit Program	AA/Stable	Affirmed
Mesquite Indpt Sch Dist PSF/CRS		
Long Term Rating	AAA/Stable	Affirmed
Underlying Rating for Credit Program	AA/Stable	Affirmed

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