S&P Global
Ratings

RatingsDirect®

Summary:

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

Primary Credit Analyst:
Belle Wu, Centennial (303)721-4325; belle.wu@spglobal.com

Secondary Contact:
Stephen Doyle, Dallas (1) 214-765-5886; stephen.doyle@spglobal.com

Table Of Contents

Summary:

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

Credit Profile		
US$93.065 mil unltd tax sch bldg bnds ser 2017B dtd 05/15/2017 due 08/15/2042		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA/Stable	New
US$12.804 mil unltd tax rfdg bnds ser 2017A dtd 05/15/2017 due 08/15/2033		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA/Stable	New
Mesquite Indpt Sch Dist GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' program rating and 'AA' underlying rating for credit program and stable outlook to Mesquite Independent School District, Texas' series 2017A unlimited-tax general obligation (GO) refunding bonds and series 2017B unlimited-tax GO school building bonds and affirmed its 'AA' long-term rating and underlying rating for credit program, with a stable outlook, on the district's existing GO debt.

The 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.

An unlimited ad valorem tax secures the bonds.

Officials intend to use series 2017A bond proceeds to refund a portion of the district's series 2007 bonds and series 2017B bond proceeds to finance various capital projects.

The rating reflects our opinion 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 finances with available reserves averaging slightly above 30% of expenditures during the past four fiscal years.

We believe somewhat offsetting factors include, what we consider, the district's:

- Growth-supported operating and capital pressure; and
- Limited revenue-raising flexibility, which, however, is currently sufficient.

Economy

Mesquite Independent School District serves an estimated population of 172,685. In our opinion, median household effective buying income (EBI) is good at 95% of the national level but per capita EBI is adequate at 75%. At $40,949 per capita, the fiscal 2017 market value, totaling $7.1 billion, is, in our opinion, adequate. Net taxable assessed value (AV) grew by a total of 11.9% since fiscal 2015 to $7.1 billion in fiscal 2017. The 10 leading taxpayers make up an estimated 5.9% of net taxable AV, which we consider very diverse.

The 59.4-square-mile district is in Dallas County. The area is largely residential with active retail, industrial, and health care industries. Its proximity toDallas provides convenient access to the deep and diverse MSA employment base. The district is in one of the county's growing sections, increasing in population and property tax base. During the past three fiscal years, AV grew by an average of 5.5% each year.

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 totals 41,000 students in 2017. Enrollment increased in each year from 2013-2017. Enrollment has increased annually by an average of 1% within the past three years. Officials are projecting enrollment will continue to increase, along with the district's growing tax base.

Available fund balance of $111.1 million was very strong, in our view, at 34% of general fund expenditures at fiscal year-end Aug. 31, 2016. The district reported a surplus operating result of 3.7% of expenditures in fiscal 2016.

The district continued its multiyear streak of positive operating results in fiscal 2016 with an operating surplus of $12.3 million. Management attributes the much larger surplus mainly to $7.5 million of unused funds budgeted for the purchase of an administrative building. The district ultimately purchased the building in September 2016, which financial reports for fiscal 2017 will reflect. State aid and local property taxes accounted for 77% and 22%, respectively, of general fund revenue in fiscal 2016.

The fiscal 2017 budget reflects an operating surplus of $632,785. Officials report revenue and expenditures are performing according to projections, and they expect to end fiscal 2017 in-line with budgeted results. The district's total tax rate is $1.46 per $100 of AV with $1.04 for operations and maintenance and 42 cents for debt service.

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.

Management prepares the budget using two years to five years of historical data analysis, along with data gathered from external sources regarding local economic trends and state funding projections. Management provides the school board with monthly budget-to-actual reports at board meetings, and the board can amend the budget as necessary. The formal investment policy follows state guidelines, and management provides investment earnings and holdings reports to the board quarterly. The district follows a formal reserve policy that requires the maintenance of reserves at a minimum 16% of operating expenditures.

While the district does not have a formal debt-management policy, officials institute practices that manage debt issuance to minimize the tax rate effect on district residents and maximize savings in case of refunding the bonds. Debt maturities match the life of the financed asset. The district has issued variable-rate debt with swap agreements; it updates the board periodically on swap performance. The district's formal swap-management policy governs the use of existing and future derivatives.

The rolling five-year capital improvement plan (CIP) follows the district's planned bond election. The long-term financial plan includes revenue and expenditure projections in-line with meaningful assumptions regarding AV growth, enrollment, and instructional costs. While the state's school finance mechanism is subject to change through legislative action or pending litigation against the state, there is revenue flexibility to modify assumptions appropriately. We understand the district will continue to update the CIP according to its project schedule in subsequent fiscal years based on needs.

Debt

At 7.5% of market value, we consider overall net debt moderately high; at $3,068 on a per capita basis, we view it as moderate. With 37% of the district's direct debt scheduled to be retired within 10 years, amortization is slower than average. Debt service carrying charges were 11.5% of total-governmental-fund expenditures, excluding capital outlay, in fiscal 2016, which we consider moderate.

Subsequent to this issuance, the district will have $609.2 million of total direct debt. The outstanding amount includes $28.8 million--the principal amount of the series 2003A bonds--of variable-rate debt, which accounts for approximately 5% of the total debt portfolio. A standby-bond-purchase agreement through JP Morgan Chase Bank N.A. that expires on Dec. 31, 2018, provides liquidity for the series 2003A bonds. A swap at a synthetic fixed-rate liability with JPMorgan Chase Bank hedges the debt. The termination rating trigger for both parties is 'BBB', which we consider remote. Currently, there are no plans to terminate the agreement.

The district currently has neither any authorized, but unissued, debt remaining nor plans to issue additional debt within the next two years.

Pension and other-postemployment-benefit liabilities

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

The district paid its full required contribution of $3 million to its pension obligations in fiscal 2016, or 0.6% of total governmental expenditures. In fiscal 2016, the district also paid $1.3 million, or 0.3% of total governmental expenditures, to its other-postemployment-benefit (OPEB) obligation. Combined pension and OPEB carrying charges totaled 0.9% of total-governmental-fund expenditures in fiscal 2016.

Outlook

The stable outlook on the program rating reflects S&P Global Ratings' view of the Texas Permanent School Fund's strength and liquidity. The outlook on the underlying rating reflects our opinion of the district's steady economic growth and sustained very strong finances. Therefore, we do not expect to change the rating during the two-year outlook period.

Upside scenario

Assuming all other rating factors improve or remain stable, if the local economy were to continue to expand and diversify, leading to stronger wealth and income in-line with the district's higher-rated peers, we could raise the rating.

Downside scenario

We could lower the rating if finances were to weaken materially or if overall debt were to increase to levels we no longer consider commensurate with the district's peers.

Ratings Detail (As Of May 19, 2017)		
Mesquite Indpt Sch Dist PSF / CRS		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	AA/Stable	Affirmed
Mesquite Indpt Sch Dist PSF / CRS		
Long Term Rating	AAA/A-1/Stable	Current
Underlying Rating for Credit Program	AA/Stable	Affirmed
Mesquite Indpt Sch Dist PSF/CRS		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	AA/Stable	Affirmed
Mesquite Indpt Sch Dist PSF/CRS		
Long Term Rating	AAA/Stable	Current
Underlying Rating for Credit Program	AA/Stable	Affirmed

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.