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Summary:

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

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Credit Profile		
US$28.456 mil unltd tax rfdg bnds ser 2015C dtd 03/01/2015 due 08/15/2032		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA/Stable	New
US$26.515 mil unltd tax sch bldg bnds ser 2015A dtd 03/01/2015 due 08/15/2040		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA/Stable	New
US$20.62 mil unltd tax rfdg bnds ser 2015B dtd 03/01/2015 due 08/15/2031		
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 2015A unlimited-tax school bonds and series 2015B and 2015C unlimited-tax refunding 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.

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;
- 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, which is subject to voter approval.

The bonds are secured by unlimited ad valorem taxes. Officials will use the series 2015A proceeds to refund a portion of the district's outstanding debt for interest-rate savings, while the new-money bond proceeds will be used to renovate, construct, and equip school facilities, acquire land for school facilities, and for bus purchases.

Mesquite Independent School District, with a population estimate of 172,700 is on the eastern border of Dallas, providing convenient access to the broad and diverse Dallas-Fort Worth MSA. The district's median household effective buying income (EBI) is good at 99% of the national level with per capita EBI of 78%. After declining 2.2% in fiscal 2013, the district's assessed valuation increased 1% and 4.8% in fiscal 2014 and 2015, respectively, to $6.3 billion. The tax base is very diverse in our opinion, with the 10 leading taxpayers accounting for roughly 6% of AV.

Enrollment growth during the past three years has been steady, increasing approximately 1.6% per year in the last three fiscal years to 40,140 students for fiscal 2015. Management projects the same rate of enrollment growth for the next few years but is conservatively budgeting for an increase of 250 students per year, or slightly more than 0.5%.

Despite growth-related operating and capital pressures, the district's financial position remains strong, supported by general fund operating surpluses in the last five fiscal years. Fiscal 2014 closed with a $6.1 million surplus, which brought the unassigned general fund balance to $91.3 million, or a very strong 30% of expenditures. Available reserves have averaged 30% of expenditures in the last four fiscal years. For fiscal 2015, management anticipates maintaining the current level of reserves and likely adding to fund balance in line with its recent performance.

State aid and local property taxes with 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 fiscal 2015 property tax rate remains unchanged from fiscal 2014 with a total tax rate of $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. Following this issuance, the district will have $30 million of authorized, but unissued, debt. The district is scheduled to have a bond election in May for authorization to issue approximately $280 million for capital projects. Management estimates a tax rate increase of no more than five cents to cover the additional debt service.

We consider the district's management practices "good" under Standard & Poor's Financial Management Assessment, indicating practices are deemed currently good, but not comprehensive. The government maintains many best practices deemed as critical in supporting credit quality, particularly within the finance department. 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 monitors district investments and provides reports to the board quarterly -- in line with the state's conservative investment guidelines -- and has adopted a formal policy. 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 with periodic swap performance updates 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 which has identified costs and projects to be funded through 2020. The district does not have long-term financial management plan.

State debt service support programs provide for about 57% of the debt service on the district's bonds. This support lowers the district's overall net debt burden to a moderate $2,051 per capita, or moderately high 5.6% of market value. Amortization is average, with 56% of debt due to be retired in 10 years, and 100% by 2040. Debt service carrying charges for fiscal 2014 were moderate at 11%.

The district's variable-rate debt exposure is approximately 8% 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 has $8.6 million in cash and $96.3 million in investments plus the option to issue bonds to cover the termination payment.

The district participates in the Teacher Retirement System of Texas, a cost-sharing multiemployer defined-benefit pension plan. The district's fiscal 2014 contribution totaled approximately $2.8 million and the state's contribution on behalf of the district was $13 million, meeting the annual required contribution. The district also contributed about $1.18 million to the Texas Public School Retired Employees Group Insurance Program, while the state contributed $2.1 million on behalf of the district. The pension and other postemployment benefit contributions combined represented just 1% of the total governmental expenditures.

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. Material declines in the district's financial position, coupled with material tax-base deterioration, could cause downward pressure on the rating, although this is unlikely to occur within our two-year horizon. Conversely, further diversified economic expansion leading to stronger wealth and income levels could provide upward rating potential.

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: State Credit Enhancement Programs, Nov. 13, 2008
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Ratings Detail (As Of March 10, 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

Ratings Detail (As Of March 10, 2015) (cont.)		
Mesquite Indpt Sch Dist PSF / CRS		
Long Term Rating	AAA/A-1/Stable	Affirmed
Underlying Rating for Credit Program	AA/Stable	Affirmed

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