S&P Global
Ratings

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Summary:

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

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Credit Profile		
US$84.425 mil unltd tax sch bldg bnds ser 2019 dtd 08/01/2019 due 08/15/2044		
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
Mesquite Indpt Sch Dist PSF		
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

Rationale

S&P Global Ratings assigned its 'AAA' long-term program rating and 'AA' underlying rating to Mesquite Independent School District (ISD), Texas' series 2019 unlimited-tax general obligation (GO) school building bonds and affirmed its 'AA' underlying rating on the district's existing GO debt. The outlook is stable.

An unlimited-ad valorem-tax pledge secures the bonds.

The 'AAA' program rating reflects our view of Mesquite ISD's eligibility for, and participation in, the Texas Permanent School Fund (PSF) 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.

Officials intend to use bond proceeds to finance ongoing large capital projects approved by voters in a bond election passed May 5, 2018.

Mesquite ISD is part of the Dallas-Fort Worth metropolitan statistical area (MSA) and the local economy continues to expand with residential and commercial development. Management is fiscally conservative and budgeting practices generally support a very strong general fund balance annually. Although recent debt issuances have increased the overall net debt, the tax base growth has kept ratios consistent with similarly rated peers and the debt service tax is expected to remain stable.

The rating further reflects the district's:

- Expanding local economy and sizable enrollment that totaled 40,379 in fiscal 2019;

- Sustained very strong finances with available reserves averaging slightly more than 30% of expenditures during the past four fiscal years;
- Strong financial management practices; and
- Moderate-to-moderately high debt with slow amortization and additional debt plans.

Economy

Mesquite ISD serves an estimated population of 184,255. In our opinion, median household effective buying income (EBI) is good at 92% of the national level, but per capita EBI is adequate at 71%. At $46,658 per capita, the 2019 market value totaling $8.6 billion is, in our opinion, adequate. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 5.3% of net taxable assessed value (AV).

The district is largely residential but also encompasses active retail, industrial, and healthcare industries. Its proximity to Dallas provides convenient access to the deep and diverse MSA employment base. Officials noted several large residential developments in various phases of construction and home values generally range from $200,000-$400,000 although there are some homes priced higher.

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. Student enrollment for 2019 totaled 40,379. Although the district is experiencing strong tax base growth, enrollment growth has been less than 1% over the past three years. The district's demographer is projecting that enrollment will not reflect strong growth until 2025 when children from young families moving into the district will enter the school system.

Mesquite ISD reported a deficit operating result of 2.2% of expenditures in fiscal 2018. The available fund balance of $111.1 million is, in our opinion, very strong equal to 30.4% of general fund expenditures. The deficit was a planned drawdown of reserves for one-time capital projects. The budget planned for a $13 million deficit although conservative budgeting supported positive variances and a smaller $8 million deficit at year-end.

Fiscal 2019 unaudited results reflect a $1.3 million general fund operating surplus due to conservative budgeting practices for both revenues and expenditures. The budget for fiscal 2020 includes salary increases for all positions, which is expected to be offset by increased state funding provided for in House Bill 3 (HB3) legislation the state passed. For more information regarding HB3, please see "Texas Funds Public Schools, Staving Off Expenditures Growth For Now," published June 13, 2019, on RatingsDirect. The 2020 budget also includes a planned $7 million use of reserves to construct a new professional development center. Despite the district plans to use reserves for capital in fiscal 2020, we believe the available fund balance will remain very strong given the district's policy to maintain 22% of expenditures in reserve.

Management

We consider the district's financial management practices strong under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Key practices and policies include:

- Management prepares the budget using two-to-five years of historical data analysis and data gathered from external sources regarding local economic trends and state funding projections.
- Monthly budget-to-actual reports are provided to the board and budget amendments can be made as needed.
- While the district does not have a formal overall debt management policy, it does have a formal swap-management policy that governs the use of existing and future derivatives. It also manages debt issuances to minimize tax effect and maximize savings on refundings.
- The rolling five-year capital improvement plan 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.
- 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 of 22% of operating expenditures.

Debt

At 8.2% of market value, we consider overall net debt as moderately high, but at $3,837 on a per capita basis, we view it as moderate. With 35% of the district's direct debt scheduled to be retired within 10 years, amortization is slower than average.

The district issued series 2003A bonds as variable-rate debt, which accounts for approximately 4% of the district's total debt portfolio. A standby bond purchase agreement through JPMorgan Chase Bank N.A. that expires Dec. 31, 2020, provides liquidity for these 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. At present, there are no plans to terminate the agreement.

The district held a successful bond election in May 2018, authorizing a total of $325 million of debt. Following this issuance, the district will have about $95 million in authorization remaining that it plans to issue next year. There are currently no plans to ask voters for additional authorization in the next few years.

Pension and other postemployment benefit liabilities

The district provides pension benefits to retirees through the Texas Teachers' Retirement System (TRS), a cost-sharing, multiple-employer, 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, multiple-employer, defined-benefit, postemployment healthcare plan.

The district paid its fully required contribution of $3.7 million to its pension obligation in fiscal 2018, or 0.7% of total governmental expenditures. In fiscal 2018, the district also paid $1.5 million, or 0.4% of total governmental expenditures, to its other postemployment benefit (OPEB) obligation. The combined pension and OPEB carrying charge totaled 1% of total governmental fund expenditures in fiscal 2019.

Outlook

The stable outlook reflects our opinion of the district's continued economic growth, with access to a broad and diverse MSA, and very strong available general fund balance. Due to this, 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, including no additional draw downs on reserves, we could raise the rating if the local economy were to continue to expand and diversify, leading to stronger wealth and income levels more in line with that of higher-rated peers.

Downside scenario

We could lower the rating if the district exhibits materially weakened finances or if overall net debt increases to a level that is significantly higher than that of similarly rated peers.

Ratings Detail (As Of August 30, 2019)		
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