

MOODY'S

RATINGS

Rating Action: Moody's Ratings downgrades Argyle ISD, TX's issuer and GO ratings to A1; outlook negative

29 Jul 2025

New York, July 29, 2025 -- Moody's Ratings (Moody's) has downgraded Argyle Independent School District, TX's issuer and general obligation unlimited tax (GOULT) ratings to A1 from Aa3. Concurrently, we have assigned A1 underlying and Aaa enhanced ratings to the district's proposed \$120.3 million Unlimited Tax School Building Bonds, Series 2025A, proposed \$49.9 million Variable Rate Unlimited Tax School Building Bonds, Subseries 2025B-1 and proposed \$50 million Variable Rate Unlimited Tax School Building Bonds, Subseries 2025B-2. Post-sale, the district will have approximately \$680 million in GOULT debt outstanding. The outlook on the issuer and underlying ratings is negative.

The downgrade to A1 is because of the significant increase in leverage and fixed costs. Maintenance of the negative outlook incorporates expected draws on fund balance for debt service coupled with aggressive tax base growth assumptions required to stabilize the credit profile.

RATINGS RATIONALE

The A1 issuer rating reflects the materially weaker leverage profile, inclusive of the current issuance. The district's long-term liabilities ratio will reach about 850% of expected fiscal 2025 (August 31 year-end) revenue and 765% of fiscal 2026 estimated revenue, which significantly exceeds the Aa median. The fixed costs ratio will also increase substantially and is projected to remain above 50% through fiscal 2026. The district does not anticipate additional issuance for two years, but slow principal amortization and continued growth driven capital needs will keep leverage elevated over the long-term.

The district is rapidly growing, evidenced by 18% average annual growth of taxable value since 2021 and a 12.4% three-year enrollment CAGR. This growth is driving the need for substantial debt issuance to expand facilities and will require taxable value growth of about 19% annually through 2029 to provide resources sufficient to service the ascending debt schedule. Even with the anticipated growth, the district expects to utilize \$5 million of capitalized interest in fiscal 2026 and \$2.6 million of fund balance in 2027 to meet debt service. A small miss in growth projections is likely to weaken the district's financial profile and pressure the rating.

The rating also incorporates adequate financial reserve levels, which are expected to remain sound through fiscal 2025. Although the district anticipates closing fiscal 2025 with a small surplus across the general and debt service funds, strong revenue growth is likely to reduce the available fund balance ratio to about 25% from 27% at fiscal 2024 year-end. While the fiscal 2026 budget is not finalized, preliminary estimates show a draw of about \$175,000 from debt service fund balance in fiscal 2026. Management expects between a \$1 million and \$1.3 million surplus in the general fund, leading to a net operating surplus and only a slight decline of reserves relative to revenue to about 24%.

The A1 underlying rating assigned to the GOULT bonds is at the same level as the issuer rating based on an unlimited property tax that is dedicated for debt service and levied upon all taxable property within the district. The A1 rating assigned to the Subseries 2025B-1 and Subseries 2025B-2 variable rate bonds reflects only the long-term creditworthiness of the bonds and does not speak to the mandatory tender that is embedded in the short-term structure. We express no opinion on the district's ability to meet unfunded tenders on its Subseries 2025B-1 and Subseries 2025B-2 variable rate bonds (expressed by the short-term NR). The mandatory tender is payable only from remarketing proceeds and the district is not obligated to pay the tenders.

The Aaa enhanced rating is based on the rating of the Texas Permanent School Fund (PSF) and the structure

and legal protections of the transaction which provide for timely payment by the PSF if necessary. We currently rate the Texas Permanent School Fund Aaa stable.

RATING OUTLOOK

The negative outlook on the district's issuer and underlying ratings reflects the material tax base growth required over the next several years to service the very high debt load and ascending debt service schedule. The outlook also incorporates the growing likelihood that the district will materially draw on fund balance during fiscal 2027 to meet debt service obligations. Additionally, there is a high likelihood that revenue growth will outpace the district's ability to maintain its available fund balance and liquidity ratios at current levels.

We could revise the outlook to stable if the district is able to meet its obligations without drawing from debt service fund balance and maintain its financial ratios. However, weaker than projected tax base growth and/or larger than anticipated reserve draws would likely result in downward rating action.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Significant moderation in long-term liabilities and fixed costs, below 400% and 25% of revenue, respectively
- Maintenance of available fund balance as a percentage of operating revenue well above 25%
- Not applicable (enhanced)

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Trend of long-term liabilities exceeding 850% of operating revenue on a forward-looking basis
- Trend of available fund balance ratio falling below 25%
- Lower than expected or reduced enrollment, tax base, or operating revenue growth that challenges affordability of debt load
- Rating downgrade of the Texas Permanent School Fund (enhanced)

PROFILE

Argyle Independent School District encompasses 48 square miles in Denton County and includes the town of Argyle, parts of the towns of Flower Mound, Northlake, Bartonville, Copper Canyon and unincorporated areas within the county. The district serves a population of approximately 17,000 residents and 6,100 students.

METHODOLOGY

The principal methodology used in the issuer and underlying ratings was US K-12 Public School Districts published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425431>. The principal methodology used in the enhanced ratings was Guarantees, Letters of Credit and Other Forms of Credit Substitution Methodology published in July 2022 and available at <https://ratings.moodys.com/rmc-documents/386295>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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