



New Issue: Moody's assigns Aa2 to Mansfield ISD's, TX, \$48.5M Unlimited Tax School Building Bonds, Series 2015

Global Credit Research - 23 Jul 2015

Maintains Aa2 underlying rating on \$745M in outstanding parity unlimited tax debt; Outlook is stable

MANSFIELD INDEPENDENT SCHOOL DISTRICT, TX
Public K-12 School Districts
TX

Moody's Rating

ISSUE	UNDERLYING RATING	RATING
Unlimited Tax School Building Bonds, Series 2015	Aa2	Aaa
Sale Amount	\$48,530,000	
Expected Sale Date	07/29/15	
Rating Description	General Obligation	

Moody's Outlook STA

NEW YORK, July 23, 2015 --Moody's Investors Service has assigned a Aa2 underlying rating to Mansfield Independent School District's, TX, \$48.5 million Unlimited Tax School Building Bonds, Series 2015. We maintain the Aa2 rating on \$745 million in outstanding parity unlimited tax debt. The outlook is stable. Concurrently we have assigned a Aaa enhanced rating to the current offerings based on a guarantee by the Texas Permanent School Fund (PSF).

SUMMARY RATING RATIONALE - UNDERLYING

The Aa2 rating reflects expected near-term growth in the district's large tax base, stable financial position despite a modest decline in Fund balance for fiscal 2014 and projected in 2015. The rating also reflects the district's high debt profile that has variable rate risk exposure and manageable pension burden.

SUMMARY RATING RATIONALE - ENHANCED

The Aaa enhanced rating is based on the rating of the Texas Permanent School Fund and the structure and legal protections of the transaction which provide for timely payment by the PSF if necessary. Moody's currently rates the Permanent School Fund Aaa.

For additional information on the PSF program, please see Moody's Rating Update Report on the Texas Permanent School Fund dated June 23, 2015.

OUTLOOK

The stable outlook reflects our belief that the district's tax base and financial performance will remain stable in the near-term, with maintained healthy financial reserves.

WHAT COULD MAKE THE RATING GO UP

- Significant decline in debt profile
- Maintenance of stable financial performance and healthy reserves
- Continued expansion and diversification of tax base

WHAT COULD MAKE THE RATING GO DOWN

- Poor financial performance leading to narrowing reserves
- Contraction of the tax base
- Increase in debt burden

STRENGTHS

- Large stable tax base in DFW metroplex
- Stable financial performance and reserves
- Above average socioeconomic profile

CHALLENGES

- High debt profile with slow payout
- Variable rate risk exposure

RECENT DEVELOPMENTS

District officials report an expected \$3.5 million operating deficit in the General Fund for fiscal 2015, yet note the majority of the deficit is due to use of funds for one-time capital expenditures which were mainly computers and buses. The district's financial expectations for fiscal 2015 are in line with previous projections. Inclusion of the current sale, or roughly \$50 million, slightly increases the district's direct debt burden from 6.2% to 6.7%.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: LARGE TAX BASE FAVORABLY LOCATION IN DFW METROPLEX

We anticipate the district's sizeable \$10.29 billion tax base will remain stable in the near to medium term, given its favorable location in the Dallas / Fort Worth Metroplex. The district is roughly 94 square miles, located in the southern portion of the DFW Metroplex, and mainly serves the City of Mansfield (GOLT rated Aa2). In each of the last ten years the district's tax base has experienced year over year positive growth. Following several years of marginal growth in fiscal 2013 and 2014, the district's tax base experienced solid growth. The fiscal 2015 taxable value of \$10.2 billion reflected an 8.1% growth over the previous year. District officials report Klein Tools expanded operations in 2014 by opened a new state-of-the-art heat treating facility in Mansfield and Mouser Electronics, the district's largest taxpayer, is also expanding operations. A local shopping center is undergoing a renovation and several larger businesses, such as grocery stores and hotels, have recently opened for operations. The district's top ten taxpayers account for a modest 6.5% of the total tax base. Officials also note residential building remains stable and available lands in the southwestern portion of the district are currently under development. For fiscal 2015, 65.6% of the district tax base is single-family residential properties, while 10.2% is classified as commercial.

The district's socioeconomic profile is above average when compared to state and national averages. American Community Survey data indicates a per capita income and median family income of 105.9% and 135.5% of national levels, respectively. District enrollment remains stable. Current collection rates for the district's tax levies historically meet or exceed 99% collections. Current district enrollment is stable and estimated at 32,783 at August 31st, 2014. District officials conservatively anticipate relatively flat to modest growth moving forward.

FINANCIAL OPERATIONS AND RESERVES: DESPITE MODEST DECLINE IN FUND BALANCE, HEALTHY RESERVE POSITION MAINTAINED

We expect financial performance and reserves to remain healthy despite a decline in reserves in fiscal 2014. The district does not have a formal Fund balance policy, yet informal maintains a reserve target three months of operations, which has been maintained. At fiscal year-end 2014 the General Fund balance totaled \$89.3 million, which reflects a \$6.4 million operating deficit in the Fund. The deficit was modestly larger than previous estimates, but we note fiscal year-end Fund balance remained a healthy 37.1% of General Fund revenues. The deficit in 2014 was largely due to use of reserves for technology projects, as well as other expenditures such as radios. General Fund revenues were comprised of state program revenues (55.8% of General Fund revenues), property taxes (42.4%), and a much smaller portion from federal program revenues. The district's current maintenance and operations (M&O) tax levy is \$10.40 per \$1,000 of assessed valuation.

District officials report an expected \$3.5 million operating deficit in the General Fund for fiscal 2015, yet note the majority of the deficit is due to use of funds for one-time capital expenditures which were mainly computers and buses. The district's financial expectations for fiscal 2015 are in line with previous projections. Moody's notes future credit reviews will focus on the district's ability to maintain a healthy reserve position given deficits in the General Fund in fiscal years 2014 and expected in 2015.

Liquidity

The fiscal year-end (August 31) 2014, the district's General Fund cash and investment position was \$93.6 million or a healthy 39% of General Fund revenues. We expect the district strong liquidity will be maintained in line with similarly rated credits.

DEBT AND PENSIONS: ABOVE AVERAGE DEBT BURDEN WITH SLOW PAYOUT; VARIABLE RATE DEBT EXPOSURE

Debt Structure

The district's direct debt burden is high at 6.7% as a percentage of fiscal 2015 values. Post-sale the district will have roughly \$793.5 million in outstanding unlimited tax bonds. The current interest and sinking or debt service levy of the district is \$4.87 per \$1,000 of assessed valuation. Given expected increases in taxable value, district officials anticipate reducing the levy in the coming years. The overall debt burden is also high at 8.6%. Payout of outstanding principal is slow with only 36.4% retired in ten years and all unlimited tax debt maturing in 2045.

Debt-Related Derivatives

The vast majority of the district's debt is in the fixed rate mode, but \$50 million (or a modest 6.3% of the district's total debt profile) is variable rate debt. Moody's notes there is no liquidity facility associated with the bonds, yet the bonds are in the initial rate mode until July 31, 2017 and will bear interest at 1.75%. Thereafter, the bonds may be Bonds may be (a) changed from time to time to a Weekly Rate, Monthly Rate, Quarterly Rate, Semiannual Rate, or Term Rate (each, a "Variable Rate"), (b) changed to a Flexible Rate, or (c) converted to a Fixed Rate until stated maturity.

Pensions and OPEB

We believe budgetary pressure due to the district's participation in the Teachers Retirement System of Texas (TRS) is expected to remain minimal in the near-term. The 3 year average of Moody's adjusted net pension liability (ANPL) is a below average 0.48x district operating revenues including the General and Debt Service Funds. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported contribution information, or the reported liability information of the statewide cost-sharing plans, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, governments, and other entities across the globe please visit Moody's on Pensions at www.moody.com/pensions.

MANAGEMENT AND GOVERNANCE

Texas school districts have an institutional framework score of "A", or moderate. Revenues are comprised of local taxes and state aid and determined by the state funding formula. While school districts maintain some revenue raising flexibility with tax rates under the state mandated cap, districts are dependent on enrollment growth to drive additional revenue. Expenditures are highly predictable and districts have a high degree of flexibility to make cuts given the lack of unions within the state.

KEY STATISTICS

-Fiscal 2015 full valuation: \$10.29 billion

-Full value per capita: \$77,111

-Median Family Income: 135.5% of US

-Operating Fund balance as a % of operating revenues: 31.6%

-5 year dollar change in operating Fund balance as a % of operating revenues: -1.96%

- Cash balance as a % of operating revenues: 34.6%
- 5 year dollar change in cash balance as a % of Revenues: -12%
- Institutional Framework: A
- Operating history: 5 year average of operating revenues/operating expenditures: 0.99x
- Net direct debt/full value: 6.7%
- Net direct debt/operating revenues: 2.35x
- 3 year average of Moody's adjusted pension liability/full value: 1.50%
- 3 year average of Moody's adjusted net pension liability/operating revenues: 0.48x

OBLIGOR PROFILE

The district is 94 square miles. Current enrollment for the district is approximately 32,783. Facilities consist of 22 elementary schools, 6 intermediate schools, 6 middle schools, 6 high schools, one alternative school and one vocational/career and technical center.

LEGAL SECURITY

The bonds are secured by a continuing direct annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the district.

USE OF PROCEEDS

Proceeds from the sale of bonds will be used to construct elementary schools in the district

PRINCIPAL METHODOLOGY

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the enhanced rating was Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts published in March 2015. Please see the Credit Policy page on www.moody.com for a copy of these methodologies.

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