FitchRatings

Public Finance
Tax-Supported
U.S.A

Mansfield Independent School District, Texas

New Issue Summary

Sale Date: Oct. 7 via negotiation.

Series: $399,484,855 Unlimited Tax Refunding Bonds, Taxable Series 2020

Purpose: Proceeds will be used to refund certain outstanding debt maturities for debt service savings and to pay issuance costs.

Security: An unlimited property tax levy against all taxable property within the district. Additional security is provided by the Texas PSF bond guaranty program, rated 'AAA' by Fitch. A change in Fitch's assessment of the Texas PSF bond guarantee program would automatically result in a change in the rating of the Mansfield ISD's taxable series 2020 ULT refunding bonds but would not affect the underlying rating.

The 'AA+' rating is based on Mansfield ISD's high level of financial resilience, solid expenditure flexibility, including moderate fixed carrying costs, along with limited independent ability to raise revenues. Fitch expects solid revenue performance to be maintained. The district's long-term liability burden is likely to grow with continued area expansion but it should remain moderate over the intermediate term.

Economic Resource Base: Mansfield ISD is located largely in the southeastern portion of Tarrant County. Per the 2018 Census data, the district serves nearly 162,000 residents, and encompasses most of the city of Mansfield along with a small portion of the city of Arlington. The district is part of the sprawling Dallas-Fort Worth (DFW) metro area and is about 30 miles south of DFW International Airport. Given the district's location, residents have access to a diverse and robust employment market that has historically outperformed the U.S. in terms of population, employment and income growth. Mansfield ISD's socio-economic profile is strong; the population base exhibits educational attainment and income levels above state and U.S. averages.

Key Rating Drivers

Revenue Framework: 'a': District operations are primarily funded through relatively equal portions state aid and local property taxes. Fitch expects future long-term revenue growth prospects will remain above inflation post-pandemic but below U.S. GDP due to the likelihood of moderating future enrollment growth and stronger TAV expansion. The district's independent legal ability to raise revenues is limited by state law.

Expenditure Framework: 'aa': The district's expenditures are likely to grow at a pace generally in line with revenue growth. Solid expenditure flexibility is derived from control over workforce costs and moderate carrying costs related to debt and retiree expenditures. The majority of employer pension and other post-employment benefit contributions are covered by the state of Texas.

Long-Term Liability Burden: 'aa': Mansfield ISD's long-term liability burden is moderate at about 15% of resident personal income, consisting mostly of direct debt. Fitch anticipates future growth in the liability burden will remain aligned to accompanying growth in the resource base, staying below 20%.

Operating Performance: 'aaa': Fitch anticipates the district will maintain a high level of operating flexibility due to its sound expenditure flexibility and high reserve cushion. Fitch believes the district is well positioned to address challenges posed by the current pandemic-induced economic contraction and more typical cyclical downturns in the future.

Ratings

Long Term Issuer Default Rating	AA+

New Issue[a]

$399,484,855 Unlimited Tax Refunding Bonds, Taxable Series 2020	AAA

[a]The 'AAA' long-term rating on the bonds reflects the guaranty provided by the Texas Permanent School Fund, which carries a Fitch insurer financial strength rating of 'AAA'. The bonds' underlying long-term rating, reflecting their credit quality before consideration of the guaranty, is 'AA+'.

Outstanding Debt

Unlimited Tax Bonds	AA+

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (March 2020)

Related Research

Fitch Rates $399MM Mansfield ISD, TX Taxable 2020 ULT Bonds 'AAA' PSF/'AA+' Underlying; Outlook Stable (Oct. 2020)

Fitch Rates Mansfield, TX $4.7 MM in GO Rfdg Bonds and $25.4 MM COs 'AA+'; Outlook Stable (Dec. 2019)

Fitch Affirms Texas PSF Rating at 'AAA'; Outlook Stable (Nov. 2019)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Although unlikely in the medium term, sustained positioning of the district's liability burden at less than 10% of personal income.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- A material and sustained change in the district's revenue growth prospects, particularly from enrollment trends.
- Operating pressures resulting from a material decline in K-12 education funding that lead to notably weaker financial resilience and revenue growth prospects once recovery from the coronavirus pandemic takes hold.
- Sustained increase in the district's long-term liability burden to over 20% of personal income, from the current level of approximately 15%, due to increased net pension liabilities or significant debt-funded infrastructure investments without commensurate growth in the underlying resource base.

Rating History (IDR and ULT bonds)

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	10/02/20
AA+	Affirmed	Stable	7/11/17
AA+	Affirmed	Stable	4/16/13
AA+	Revised	Stable	4/30/10
AA	Upgraded	Stable	10/15/09
AA-	Affirmed	Positive	6/10/08
AA-	Affirmed	Stable	6/19/03
AA-	Assigned	---	1/30/01

Current Developments

Sector-Wide Coronavirus Implications

The outbreak of the coronavirus and related government containment measures worldwide have created an uncertain global environment for U.S. state and local governments and related entities. Fitch's ratings are forward-looking in nature, and we will monitor the severity and duration of the budgetary impact on state and local governments and incorporate revised expectations for future performance and assessment of key risks.

While the initial phase of economic recovery has been faster than expected, GDP in the U.S. is projected to remain below its 4Q19 level until at least 4Q21. In its baseline scenario, Fitch assumes continued strong GDP growth in 3Q20 followed by a slower recovery trajectory from 4Q20 onward amid persisting social distancing behavior and restrictions, high unemployment and a further pullback in private-sector investment.

Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the report titled, "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases – Update," published Sept. 8, 2020 on www.fitchratings.com

From April 3 through the last day of the spring semester, all Texas school districts were designated as "Closed, Instructing" by the Texas Education Agency (TEA), indicating normal operations had ceased and children no longer came to campuses, but instead were provided support to receive instruction at home/off-site. The "Closed, Instructing" designation did not impact the district's receipt of state aid.

The governor directed a gradual reopening of the state's economy beginning in late April; however, the closure order for all Texas K-12 schools and colleges was extended for the remainder of the 2019-2020 school year. For fiscal 2021, the district began the school year with purely online education for the first four weeks, which was followed by parents' ability to select in-person or virtual instruction for the remainder of the fall 2020 semester.

The coronavirus pandemic is materially affecting state revenues and is expected to continue applying downward pressure in the coming months. While state officials have directed certain state agencies to reduce spending by 5% for the remainder of the 2020-2021 biennium, no reduction in K-12 funding was included in that directive. Changes to K-12 funding for the upcoming 2021-2022 biennium likely will be considered in the next legislative session, which convenes in January 2021.

Impact of the Coronavirus on Mansfield ISD Budget

The district entered the pandemic-induced shutdown with a strong fiscal 2019 unrestricted general fund reserve cushion of approximately $94 million or 32% of spending. Fiscal 2020 coronavirus related spending was directed in large part toward the district's technology needs. The district expects to be reimbursed through the state up to 75% for its spending related to the coronavirus through certain Coronavirus Aid, Relief and Economic Security (CARES) Act funds as well as some federal funding, to be received by the district in fiscal 2020 or fiscal 2021.

Management currently projects a modest operating surplus in fiscal 2020 at roughly $8 million, about 3% of the year's budgeted spending. This is attributable to both the relative stability of budgeted operating revenues and deferral of the recognition of technology and buses purchased to fiscal 2021.

The nearly $319 million fiscal 2021 general fund operating budget was adopted with a $5 million deficit, or 1.5% of spending, which was attributable to the aforementioned deferred recognition of pay-go capital spending. Management reports all district students currently have the technology devices necessary for virtual/online learning.

Underpinning the fiscal 2021 budget is 1% enrollment growth assumed, a contingency of $1 million for additional coronavirus spending, and slightly lower M&O tax rate given the TAV gain anticipated. The district has a history of careful expenditure management and modestly outperforming budget. Fitch expects the district will continue prudently managing its liquidity and spending in order to maintain a financial cushion consistent with Fitch's 'aaa' reserve safety margin.

Credit Profile

Mansfield's economy is diversified across manufacturing, health services, utilities, retail, property management and leisure services. In addition to the district and local government, major employers include Mouser Electronics, Methodist Mansfield Medical Center, and Walmart. Further commercial, residential, and transportation development appears likely and bodes well for the city's post-pandemic economic growth prospects.

As part of the broad DFW metro economy, Fitch believes post-pandemic economic and TAV prospects for the district will largely continue to track recent trends. The district's taxable assessed valuation (TAV) has realized strong growth over the past several years, averaging 6% annually over the past decade (fiscals 2011-2021). Officials expect further TAV growth given additional development occurring.

A key determinant in the district's revenues is per pupil state funding and the district's average daily attendance, which totaled approximately 33,365 in fiscal 2020 and held roughly flat to the prior year. The CAGR for average daily attendance, covering the 10-year period ending in fiscal 2020, is just over 1%.

Demographer projections indicate continual enrollment growth through 2031, albeit at a somewhat slower pace than in previous years. Nonetheless, the district's latest enrollment estimate of 34,994 for fiscal 2021 suggests a nearly 2% decline from the prior year, although Fitch believes it is reasonable to assume this decline may soften as the school year and in-person learning progress.

Revenue Framework

Funding for public schools in Texas is provided by a combination of local (property tax), state and federal resources. The state budgets the majority of instructional activity through the Foundation School Program (FSP), which uses a statutory formula to allocate school aid, reflecting each district's property taxes, projected enrollment and amounts appropriated by the legislature in the biennial budget process.

The Tier 1 component of the FSP provides districts a certain level of operational funding, and the basis for most Tier 1 allotments is called the basic allotment. The basic allotment is a per pupil dollar amount that is multiplied by ADA (and adjusted for specific circumstances) and produces a district's Tier 1 allotment.

Local property taxes accounted for roughly 51% of the district's fiscal 2019 general fund revenues, followed by state aid at 47%. Federal funding accounted for the remainder of general fund revenues.

Mansfield ISD's average annual revenue growth totaled 3.7% for the 10 years ending fiscal 2019, performing above inflation but slightly below U.S. GDP. Fitch expects comparably solid revenue gains, absent policy action, based on the likelihood of enrollment to grow at a similar pace to recent ADA performance, future increases to per-pupil state funding levels, and steady gains in operating property taxes within the tax rate compression constraints of HB3 detailed below from continued TAV expansion.

Pre-pandemic, the state increased TEA funding for the fiscal 2020-2021 biennium by roughly 20% through the provisions of House Bill 3 (HB 3), which was approved by the 2019 Texas Legislature and signed into law by the governor. The increased funding was driven primarily by an increase in the state per-student basic allotment to $6,160 from $5,140. HB3 required districts to apply 30% of the annual increased funding to full-time employee compensation increases, 75% of which would go to teachers, counselors, nurses and librarians. HB3 also included a number of reforms to K-12 education. These changes included an early childhood allotment, which may be used for full day pre-K for eligible children, increased funding for low-income student education, incentives for districts to offer dual language programs, and money for districts to develop merit pay programs for teachers.

Compression of a district's local maintenance and operations (M&O) tax rate is another requirement of HB3 and for districts to limit annual operating tax revenue increases to 2.5% by requiring a reduction in the M&O rate if TAV grows by more than 2.5%.

The district's independent legal ability to raise revenues is limited; any increase requires voter approval. Mansfield ISD's M&O tax rate was previously at the statutory maximum without voter approval of $1.04 per $100 of TAV in fiscal 2019. Given the aforementioned tax rate compression included in HB3, the district's fiscal 2020 M&O tax rate was at the new maximum allowable of $0.97 per $100 TAV. However, this limitation as a factor in the revenue framework assessment is somewhat offset by the recognition of K-12 education as fundamentally a state responsibility and the strong foundation of state support for education funding.

While the debt service property tax pledge securing the district's bonds is unlimited, state law requires districts to demonstrate the ability to service outstanding and any proposed debt with a debt service rate of no more than $0.50 per $100 of TAV. The current debt service rate is just below the limit at $0.49 per $100 TAV in fiscal 2020; this rate is not subject to compression under HB3.

Expenditure Framework

Consistent with most school districts, the district's largest expenditure category is instruction, which accounted for approximately 63% of operating expenses in fiscal 2019. Fitch expects the pace of spending growth will be in line with to marginally above the solid revenue growth anticipated, based on manageable spending pressures.

The district's fixed cost burden is moderate, with carrying costs for debt, pensions, and other post-employment benefits totaling about 14% of fiscal 2019 governmental expenditures. Debt service drives carrying costs, although Fitch notes a separate tax levy restricted for debt service rather than general operations supports the district's outstanding debt. Fitch expects the district's expenditure flexibility to remain solid over the foreseeable future, given its flexibility in staffing, strong legal control over wages and benefits, and current levels of state support for debt service and retiree benefits.

The district participates in the Texas Teacher's Retirement System (TRS), a cost-sharing multiple employer system. Actual contributions are fixed in statute, while the ADC measures contributions needed to eliminate the unfunded liability in 30 years. Statutory rates have often been below the ADC, with the resulting funding period slipping beyond the 31-year statutory maximum. Contributions (and the NPL) are shared by school districts and the state. In 2018, TRS lowered its discount rate to 7.25%, from 8.0%, and in 2019 the legislature raised state, employer and employee rates over five years to bring the funding period within the legal maximum threshold. Like all Texas school districts, the district is vulnerable to future state policy changes that shift more of the contributions and liabilities onto districts, as well as to TRS' ability to achieve its funding assumptions over time.

Long-Term Liability Burden

Mansfield ISD has no authorized but unissued debt remaining after completing its last $275 million bond program from 2017. Officials report no near-term plans to approach voters for bonding authority. However, given the district's anticipated growth, Fitch believes that it is likely that the district will issue additional debt within the next few years. The long-term liability burden is moderate at 15% of 2018 resident personal income and Fitch anticipates it should remain in a similar range as future increases in the burden should remain paced to the area's population and personal income growth trends.

Under GASB 67, TRS's assets covered 75.2% of liabilities as of the system's fiscal 2019 audit, a ratio that falls to 64.3% using Fitch's standard 6.0% return assumption; the district's own financial statements will reflect these results in fiscal 2020. Reported system figures are based on the lower discount rate implemented by TRS in 2018 and the statutory increase in contribution rates approved in 2019.

Higher expected contributions have eliminated the depletion date reported by TRS in fiscal 2018 and which school districts are reporting in their fiscal 2019 audits and have brought forecast amortization to 30 years. Statutory contribution increases strengthen the likelihood of funding improvement, but future progress ultimately depends on whether actual TRS performance matches assumptions over time. At present, the state carries just over half of TRS' employer NPL on behalf of school districts and pays roughly half of contributions.

Operating Performance

The Fitch Analytical Stress Test (FAST) scenario analysis tool, which relates historical general fund revenue volatility to GDP to support the assessment of operating performance under Fitch's criteria, has now been adjusted to reflect GDP parameters consistent with Fitch's global coronavirus forecast assumptions. FAST is not a forecast, but it represents Fitch's estimate of possible revenue behavior in a downturn, based on historical revenue performance.

Guided by the current baseline and downside stress scenarios, the 'aaa' operating performance assessment reflects Fitch's expectation that based on its capability and willingness to make spending cuts and its commitment to maintain a solid reserve cushion, the district will maintain the highest level of financial resilience through the current economic contraction.

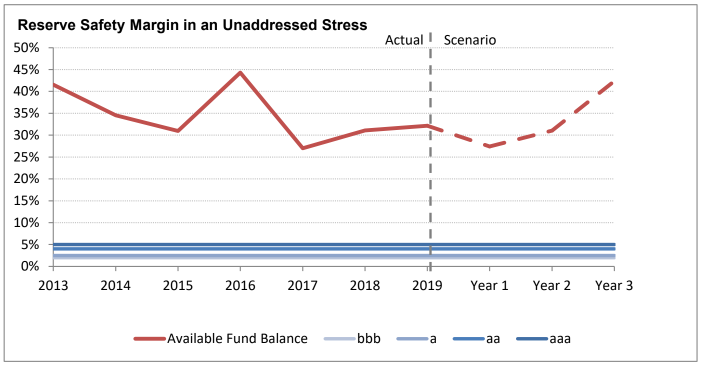
The district has demonstrated a strong commitment to supporting financial flexibility. Budgeting is conservative and periodic drawdowns on reserves typically reflect pay-go capital spending. Management has been proactive in maintaining operational balance and strong reserve levels throughout economic cycles. Fitch expects the district will continue to prudently manage its costs in order to maintain operating performance that is consistent with the current rating.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of Environmental, Social and Corporate Governance (ESG) Credit Relevance is a Score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Mansfield Independent School District (TX)

Scenario Analysis



Analyst Interpretation of Scenario Results:

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Scenario Parameters:					Year 1	Year 2	Year 3
GDP Assumption (% Change)					(4.6%)	4.0%	3.0%
Expenditure Assumption (% Change)					0.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:*	**-5%**	*Case Used:*	**Baseline**	(6.5%)	11.5%	9.7%
Inherent Budget Flexibility						Midrange	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2013	2014	2015	2016	2017	2018	2019	Year 1	Year 2	Year 3
Total Revenues	222,069	239,590	252,621	259,994	273,932	289,070	297,838	278,437	310,496	340,459
% Change in Revenues	-	7.9%	5.4%	2.9%	5.4%	5.5%	3.0%	(6.5%)	11.5%	9.7%
Total Expenditures	226,718	247,268	263,152	239,489	280,688	283,826	292,299	292,299	298,145	304,108
% Change in Expenditures	-	9.1%	6.4%	(9.0%)	17.2%	1.1%	3.0%	0.0%	2.0%	2.0%
Transfers In and Other Sources	136	1,218	5,521	1,446	2,533	730	41	38	43	47
Transfers Out and Other Uses	-	-	94	-	20,603	-	27	27	27	28
Net Transfers	136	1,218	5,426	1,446	(18,070)	730	15	12	16	19
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	(4,513)	(6,460)	(5,104)	21,950	(24,826)	5,974	5,553	(13,851)	12,366	36,370
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(2.0%)	(2.6%)	(1.9%)	9.2%	(8.2%)	2.1%	1.9%	(4.7%)	4.1%	12.0%
Unrestricted/Unreserved Fund Balance (General Fund)	94,180	85,444	81,479	106,142	81,413	88,188	94,024	80,173	92,539	128,909
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	94,180	85,444	81,479	106,142	81,413	88,188	94,024	80,173	92,539	128,909
Combined Available Fund Bal. (% of Expend. and Transfers Out)	41.5%	34.6%	31.0%	44.3%	27.0%	31.1%	32.2%	27.4%	31.0%	42.4%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.