

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 UND/Aaa ENH to Mansfield ISD, TX's Series 2020 GOULT; outlook stable

02 Oct 2020

New York, October 02, 2020 -- Moody's Investors Service has assigned a Aa2 underlying rating to Mansfield Independent School District, TX's \$399.5 million Unlimited Tax Refunding Bonds, Taxable Series 2020. Moody's maintains the Aa2 rating on the district's \$496.3 million of outstanding general obligation unlimited tax (GOULT) debt. We have also assigned a Aaa enhanced rating to the debt based on a guarantee provided by the Texas Permanent School Fund (PSF). The outlook remains stable.

RATINGS RATIONALE

The Aa2 underlying rating is based on the district's large and rapidly growing, primarily residential, tax base located in the economically vibrant Dallas/Fort Worth metropolitan area. The rating additionally considers the district's strong financial position as well as the elevated debt burden. Positively, the district's debt burden will likely decline over the next several years due to a lack of additional debt plans and the district's pension liability is manageable. Coronavirus has not had a material impact on the district's operations or budgetary performance to date, though state funding could be impacted by the economic downturn during the state's next legislative session.

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 Texas Permanent School Fund Aaa with a stable outlook.

RATING OUTLOOK

The stable outlook reflects our expectation that the district's tax base will continue growing as it maintains a strong level of financial reserves as the debt burden gradually declines going forward. We also expect the district will make expenditure cuts if required to maintain financial health in the event of state funding declines.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained reduction in the ratio of debt to assessed valuation
- Trend of materially improved reserves
- Not applicable for enhanced rating

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Substantial draws on reserves
- Material increase in the debt burden
- Downgrade of the Texas Permanent School Fund program (enhanced)

LEGAL SECURITY

The Series 2020 bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the district, unlimited as to rate or amount. The bonds are further secured by the Texas Permanent School Fund's commitment to pay debt service if necessary.

USE OF PROCEEDS

Bond proceeds will be used to refund previously issued debt to achieve savings on debt service.

PROFILE

Mansfield ISD provides K-12 education to a 94 square mile area, primarily serving the City of Mansfield (Aa2

stable) in the southern Dallas/Fort Worth area. The district's service area is experiencing rapid residential development with a current enrollment of 35,293.

METHODOLOGY

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1230443. 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 May 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1068154. Alternatively, please see the Rating Methodologies page on www.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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004

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CREDIT OPINION

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Mansfield Independent School District, TX

Update to credit analysis

Summary

[Mansfield ISD](#) (Aa2 stable) benefits from a large and rapidly growing, primarily residential, tax base located in the economically vibrant Dallas/Fort Worth metropolitan area. The district's financial position is strong and its pension liability is manageable. The debt burden is elevated, though it's likely to moderate in the future due to a lack of additional debt plans. Coronavirus has not had a material impact on the district's operations or budgetary performance to date, though state funding could be impacted by the economic downturn during the state's next legislative session.

Credit strengths

- » Large and rapidly growing tax base
- » Strong finances
- » Above average resident incomes

Credit challenges

- » Elevated debt burden
- » Constrained revenue raising flexibility
- » Potential for state funding to decline in next legislative session

Rating outlook

The stable outlook reflects our expectation that the district's tax base will continue growing as it maintains a strong level of financial reserves as the debt burden gradually declines going forward. We also expect the district will make expenditure cuts if required to maintain financial health in the event of state funding declines.

Factors that could lead to an upgrade

- » Sustained reduction in the ratio of debt to assessed valuation
- » Trend of materially improved reserves

Factors that could lead to a downgrade

- » Substantial draws on reserves
- » Material increase in the debt burden

Key indicators

Exhibit 1

Mansfield Independent School District, TX	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$10,290,546	\$10,711,145	\$11,532,862	\$12,664,638	\$13,804,139
Population	149,740	156,409	161,802	163,607	163,607
Full Value Per Capita	\$68,723	\$68,482	\$71,278	\$77,409	\$84,374
Median Family Income (% of US Median)	141.1%	137.5%	135.7%	133.2%	133.2%
Finances					
Operating Revenue (\$000)	\$311,762	\$315,687	\$334,748	\$356,220	\$368,602
Fund Balance (\$000)	\$91,286	\$131,411	\$108,611	\$121,433	\$140,492
Cash Balance (\$000)	\$99,197	\$116,775	\$98,521	\$114,822	\$136,362
Fund Balance as a % of Revenues	29.3%	41.6%	32.4%	34.1%	38.1%
Cash Balance as a % of Revenues	31.8%	37.0%	29.4%	32.2%	37.0%
Debt/Pensions					
Net Direct Debt (\$000)	\$793,754	\$768,673	\$739,462	\$751,160	\$774,384
3-Year Average of Moody's ANPL (\$000)	\$161,109	\$199,421	\$230,744	\$262,960	\$279,263
Net Direct Debt / Full Value (%)	7.7%	7.2%	6.4%	5.9%	5.6%
Net Direct Debt / Operating Revenues (x)	2.5x	2.4x	2.2x	2.1x	2.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.6%	1.9%	2.0%	2.1%	2.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	0.6x	0.7x	0.7x	0.8x

Source: audited financial statements, governmental data sources

Profile

Mansfield ISD provides K-12 education to a 94 square mile area, primarily serving the City of [Mansfield](#) (Aa2 stable) in the southern Dallas/Fort Worth area. The district's service area is experiencing rapid residential development with a current enrollment of 35,293.

Detailed credit considerations

Economy and tax base: rapidly growing residential community near Fort Worth

The district's large tax base is expected to continue growing as home construction continues on available land within the district. Following 9.6% growth for fiscal 2020, certified assessed valuation reached a sizeable \$15.1 billion and valuation has climbed at an average annual pace of 8.6% over the past five years. The tax base primarily includes single-family residential construction (62% of value) and strong demand for housing in the Dallas/Fort Worth area has fueled rapid growth within the district. District officials report that there are large tracts of available land within the district, however the necessity of providing utility infrastructure in many areas will likely cause growth to moderate to some degree. Over the long term, however, these areas are expected to be developed. Housing demand within the Dallas/Fort Worth area remains strong despite the ongoing pandemic.

The district's enrollment has been steadily climbing as the district has added 4,590 students over the past ten years and enrollment as of the 2020 fiscal year is 35,293. Demographically, the district is fairly affluent with a median family income equivalent to 133% of the national level as of 2018. Demand for housing within the district has traditionally been supported by the strong local labor market, however unemployment has climbed (as is common) due to the pandemic. Unemployment has grown to 7.8% as of July 2020, though this remains lower than the state at 8.2% and the nation at 10.5% in the same period.

Financial operations and reserves: strong financial position expected to be maintained

The district's financial position is strong and is expected to remain stable over the near term. Following a \$5.9 million general fund surplus for fiscal 2019, the district's available general fund balance was an ample \$94 million or 32% of general fund revenue. The

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available operating funds balance, inclusive of the debt service fund, is also strong at 38% of operating funds revenue. Mansfield ISD expects to report a roughly \$8 million general fund surplus for fiscal 2020, though this was inflated to some degree by a delayed \$5.4 million technology expenditure that will be incurred in fiscal 2021. This resulted in the adoption of a \$5.5 million deficit budget for fiscal 2021, though considering the two years as a whole results in slightly surplus operations during this period. Overall, the district is expected to maintain a strong financial position over the long term.

Property taxation generates 60% of the district's operating funds revenue as of fiscal 2019, with essentially all of the remainder derived from state support. The district levies a total property tax of \$14.60 per \$1,000, with \$9.70 supporting general fund operations and the remaining \$4.90 paying debt service. The outlook for state funding remains uncertain. State revenues have declined due to the pandemic, though the impact to state funding for local school districts will not be known until the next legislative session in the summer of 2021.

Liquidity

As with the fund balance, the district's liquidity is healthy. General fund net cash and equivalents was \$91.4 million as of the fiscal 2019 audit, equal to 31% of general fund revenue. Operating funds liquidity was \$136.4 million or 37% of operating funds revenue.

Debt and pensions: elevated debt burden expected to moderate

The district's debt burden is elevated, though not at a level uncommon among Texas school districts, but will moderate in future due to a lack of immediate debt plans. Mansfield ISD has \$895.8 million of debt outstanding, which is equivalent to an elevated 5.5% of assessed valuation. Overall net debt, inclusive of debt issued by overlapping entities such as the City of Mansfield, represents 71% of the district's certified valuation. The district has no remaining voter authorization to issue debt and does not intend to call an election at this time.

Legal security

The district's bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the district, unlimited as to rate or amount. The bonds are further secured by the Texas Permanent School Fund's commitment to pay debt service if necessary.

Debt structure

The majority of the district's debt is fixed rate, though its Series 2012 issuance is variable rate and subject to remarketing every four years; however, this debt represents only 5% of the district's total debt outstanding. Amortization of the district's debt is slow, though in line with other Texas school districts, with 39% of principal repaid over the next 10 years.

Debt-related derivatives

The district is not party to any derivative agreements.

Pensions and OPEB

The district's pension burden is low, and does not represent near term pressure on the district's credit profile. The district participates in the Teacher Retirement System of Texas, a cost-sharing multiple employer defined benefit pension plan, but the majority of the contributions and liability is supported by the state. Moody's fiscal 2019 adjusted net pension liability (ANPL) for the district, using a 4.07% discount rate, is \$282.2 million, or a low .77 times operating revenues.

The district's adjusted net OPEB liability is \$119.9 million. At 33% of revenues, the liability is a small source of balance sheet leverage.

Total fixed costs for the district including debt service, pension contributions, and OPEB contributions were \$66.1 million or a moderate 18% of operating revenues. The fixed cost burden would increase slightly to 19.2% of revenues if the district were to make its "tread water" payment. The "tread water" indicator measures the annual government contributions required to prevent reported net pension liabilities from growing, under reported assumptions.

ESG considerations

Environmental

Environmental factors have not proven to be a material challenge for the district historically. Mansfield ISD is located in north Texas, which is subject to extreme weather events such as tornados, drought, and extreme heat.

Social

While Moody's regards coronavirus as a social risk under its ESG framework, the virus has not presented a material challenge to the district's operations or finances. Minimal expenditure was incurred and the local economy remains relatively healthy, though state funding could be impacted in the upcoming legislative session. Other social factors include the area's growing population and above average resident incomes.

Governance

The district is governed by a seven member board of trustees serving staggered three-year terms with elections held in May of each year. Daily administrative responsibilities are delegated to the district's hired staff.

Texas School Districts have an Institutional Framework score of "Aa", which is strong. Property taxes, one of the sector's major revenue sources is subject to a levy cap set by state statute, which can be overridden with voter approval by a limited amount. Property tax revenue growth is capped at 2.5% annually, but the voter approved levy override provides for additional revenue-raising flexibility. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures and are primarily debt service expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Mansfield Independent School District, TX

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$16,182,518	Aaa
Full Value Per Capita	\$113,213	Aa
Median Family Income (% of US Median)	133.2%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	38.1%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	12.9%	Aa
Cash Balance as a % of Revenues	37.0%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	9.4%	A
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	5.5%	Baa
Net Direct Debt / Operating Revenues (x)	2.4x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.7%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.8x	Aa
Notching Factors: ^[2]		
Unusually Strong or Weak Security Features		Up
Scorecard-Indicated Outcome		Aa1
Assigned Rating		Aa2

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: US Census Bureau, Moody's Investors Service

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