

Summary:

Arlington Independent School District, Texas; School State Program

Primary Credit Analyst:

Calix Sholander, Centennial (1) 303.721.4255; calix.sholander@spglobal.com

Secondary Contact:

Joshua Travis, Dallas 972-367-3340; joshua.travis@spglobal.com

Table Of Contents

Rationale

Outlook

Related Research

Summary:

Arlington Independent School District, Texas; School State Program

Credit Profile

US\$87.91 mil unlted tax sch bldg bnds ser 2017 dtd 06/15/2017 due 02/15/2042

Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA/Stable	New
Arlington Indpt Sch Dist PSF/CRS		
Long Term Rating	AAA/Stable	Affirmed
Underlying Rating for Credit Program	AA/Stable	Affirmed
Arlington Indpt Sch Dist PSF/CRS		
Long Term Rating	AAA/Stable	Affirmed
Underlying Rating for Credit Program	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' underlying rating for credit program and 'AAA' program rating to Arlington Independent School District (Arlington ISD), Texas' series 2017 unlimited tax school building bonds. At the same time, S&P Global Ratings affirmed its 'AA' underlying rating on the district's parity debt. The outlook on all ratings is stable.

The 'AAA' program rating reflects our view of the district's eligibility for, and participation in, the Texas Permanent School Fund 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.

The 'AA' underlying rating reflects our opinion of the district's general creditworthiness, including the ISD's:

- Stable and diverse economy with direct access to and participation in the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA);
- Very strong financial position with available reserves being sustained above 30% in the past three fiscal years; and
- Management practices we consider "good" under our financial management assessment (FMA) methodology.

In our opinion, partly offsetting the above credit strengths is the district's moderate overall net debt burden, which we expect to remain near current levels as the district completes its bond program.

An unlimited ad valorem property tax pledge secures the bonds. Bond proceeds will be used to fund various capital projects from the district's bond program.

Economy

Arlington ISD serves an estimated population of 379,370. The median household effective buying income in the district is 99% of the national average, and the per capita effective buying income in the district is 94% of the national average, both of which we consider good. The district's total \$24.1 billion market value in 2017 is strong, in our view, at \$63,590

update the board on budget performance and provide quarterly reports on investment holdings consistent with formal budgeting and investment policies. The district has developed a long-term financial plan that identifies both revenues and expenditures under meaningful assumptions, including AV and enrollment trends as well as personnel costs. The plan is subject to change on a biennial basis to reflect appropriations established by the legislature. The district's comprehensive capital planning overlaps its bond program, which runs through fiscal 2019 and details projects and phases for completion. The Citizens Bond Oversight Committee monitors the overall progress of the district's bond program. The board also maintains a formal reserve target of two months' expenditures, which it has historically exceeded. While the district lacks a formal debt management policy, as part of its bond program the board established criteria for the useful life of projects that are funded with bond proceeds and has historically funded them with fixed-rate general obligation debt.

Debt

At 5.4% of market value and \$3,411 per capita, overall net debt is moderate, in our view. With 46% of the district's direct debt scheduled to be retired within 10 years, amortization is slower than average. Debt service carrying charges were 11.8% of total governmental fund expenditures excluding capital outlay in fiscal 2016, which we consider moderate.

After this issuance, the district will have \$39.6 million in authorized but unissued debt, which it anticipates issuing in June 2018. We note that the district has two privately placed bonds, the series 2009 and series 2014, which account for about 12% of the district's total debt outstanding. We do not view these bonds as contingent liquidity risks, as the bond documents do not contain non-standard events of default, nor do they contain any acceleration provisions.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of \$12.4 million toward its pension obligations in fiscal 2016, or 1.6% of total governmental expenditures. In fiscal 2016, the district also paid \$2.4 million, or 0.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 2.0% of total governmental fund expenditures in 2016.

Arlington ISD participates in the Texas Teachers' Retirement System (TRS). According to its 2016 audit, which adhered to Governmental Accounting Standards Board Statement No. 68 reporting standards, its proportionate share of the plan's net pension liability was nearly \$139 million. The plan's fiduciary net position was 78.4% of the total pension liability. The district also contributes to TRS Care, a cost-sharing, multi-employer, defined-benefit

p -21 (nmental) -260.0 (expeat0.0 (78.4%) -260.ity) 103 (.) -260 (tod.0 (w) 29 (as)d0 (district) 2Gtal) -260(T) 103 (exas) -260.0 (Tsm0 (

within the two-year outlook horizon.

Upside scenario

If the district's wealth and income indicators improve to levels commensurate with higher rated peers, and its debt burden and carrying charges do not exceed levels we consider moderate or present budgetary challenges, we could consider raising the rating.

Downside scenario

If the district's available fund balance were to significantly deteriorate due to unexpected and sustained increases in operating or debt service costs, we could consider lowering the rating.

Related Research

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P does not intend to assign credit ratings or provide credit ratings to any obligor or security, and does not intend to provide any other financial product or service to any obligor or security. S&P's ratings are not intended to be used as a basis for any investment decision.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.