S&P Global
Ratings

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Summary:

Dallas Independent School District; School State Program

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Table Of Contents

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Credit Profile		
US$485.825 mil unltd tax rfdg bnds ser 2021B due 08/15/2034		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA+/Stable	New
US$161.99 mil unltd tax rfdg bnds ser 2021A dtd 04/15/2021 due 02/15/2031		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA+/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' program rating and 'AA+' underlying rating to Dallas Independent School District (ISD), Texas' approximately $162 million series 2021A general obligation (GO) unlimited-tax refunding bonds and approximately $486 million taxable series 2021B GO unlimited tax refunding bonds. The outlook is stable.

An unlimited ad valorem property tax secures the bonds. After the current refundings, the district will have $3.2 billion in total direct debt outstanding. Bond proceeds will refund existing debt for savings without extending final maturities.

The 'AAA' long-term rating reflects our view of the district's eligibility for, and participation in, the Texas Permanent School Fund (PSF) 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. (For more information on the program rating, see our report on the Texas PSF, published June 25, 2020, on RatingsDirect.)

The district's GO unlimited-tax bonds are secured by an unlimited ad valorem tax levied annually against all taxable property located within its borders.

Credit overview

Dallas ISD benefits from its participation in the Dallas-Fort Worth Metroplex, exhibited in historically strong and steady tax base growth in the past five years. Conservative budgeting and good management support very strong reserves. Although assessed valuation (AV) appeals increased an average of 11% annually over the past five years, they rose 15% for fiscal 2021, which is likely a reflection of the COVID-19 pandemic and pressure on employment in certain sectors. The district typically budgets conservatively, so the increase in appeals should not significantly pressure revenues for fiscal 2021.

We believe that the ISD has sufficient financial flexibility to manage through periods of uncertainty. In addition, S&P Global Ratings recognizes significant stimulus funds can help quicken the pace of recovery and has changed its view on the local government sector to stable from negative. For more information, see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," and "State, Local Government, School District, And Charter School Sector Views Revised

Back To Stable," both published March 24, 2021, on RatingsDirect.

The 'AA+' rating reflects our opinion of the district's:

- Large and diversified economy, with strong AV growth, as evidenced by a 7% increase for fiscal 2021;
- Adequate income and good wealth levels;
- Very strong market value per capita of $122,052;
- Very strong finances, with sizable surpluses for the past three fiscal years; and
- Moderate 4.3% overall net debt as a percentage of market value.

The stable outlook on the 'AAA' rating reflects our view of the strength of the Texas PSF guarantee, based on the fund's assets and performance.

Environmental, social, and governance (ESG) factors

We believe the district's declining enrollment is a social risk reflective of the ISD's changing demographics, which could affect the district's financial profile; however, we believe management has demonstrated a long trend of budgeting for the declines and budgetary performance has remained stable. We also analyzed the district's environmental and governance risks relative to the ISD's economy, management, financial measures, and debt and liability profile, and determined that these are what we consider standard for the sector.

Stable Outlook

Downside scenario

We could lower the rating if future debt issuances increase debt to levels that no longer accurately reflect the current rating, or if the ISD experiences sustained operating deficits that materially reduce the general fund reserve.

Upside scenario

We could raise the rating if the district's incomes increase to much stronger levels that are consistent with those of higher-rated peers, with all else remaining equal.

Credit Opinion

Economy

Dallas ISD serves an estimated population of 1.1 million. In our opinion, median household effective buying income (EBI) is adequate, at 86% of the national level, but per capita EBI is good, at 95%. Market value totaled $140 billion in 2021, which we consider extremely strong, at $122,052 per capita. The 7% increase in the tax base for fiscal 2021 is better than the 5% projected in the budget. The budget was conservative and adopted with the anticipation that AV appeals would be higher due to the pandemic. In fiscal 2021, appeals increased 15% from the previous year, compared with an 11% average annual increase for the previous five years. The 10 largest taxpayers make up an estimated 4.0% of net taxable AV, which we consider very diverse.

The district covers about 80% of Dallas, as well as nearby suburbs. It benefits from being at the center of the Dallas metropolitan area, a vibrant regional economic center. Despite the ongoing pandemic, district officials noted that the majority of the larger taxpayers and employers are stable. Southwest Airlines Co. put its plans for pay cuts and furloughs on hold with the receipt of stimulus funding. However, AT&T appears to be moving forward with its plans to lay off 5%-7% of its staff to cut costs. Officials noted that in other areas, business expansions and new development projects are underway and have not slowed or stopped, indicating the local tax base will likely continue to expand.

Finances

Increases or decreases in average daily attendance (related to enrollment) can lead to corresponding increases or decreases in the amount of state revenue a district receives. District management continues to budget for declining enrollment based on historical trends. Enrollment totaled 153,861 in fiscal 2020 and current estimates reflect a 6% decrease to 144,851 as of March 19, 2021.

The ISD depends primarily on property taxes for general fund revenue (83%), followed by state aid (12%). Its available fund balance of $851.8 million is very strong, in our view, at 59% of general fund expenditures at fiscal year-end (June 30) 2020. The district reported a surplus operating result of 10.8% of expenditures in 2020. The budget was conservative, consistent with management's historical practice. Management makes budget adjustments each year to account for declining enrollment, and total full-time employees in 2020 were lower than in 2019. Furthermore, due to health and safety concerns related to the pandemic, the district closed its facilities and cancelled extracurricular activities from March until May, which significantly reduced costs.

The budget for fiscal 2021 includes a $22 million deficit. Although some additional costs related to pandemic-related expenditures and increased maintenance have occurred during the year, officials expect that conservative budgeting for the year will likely lead to a year-end surplus. Every student has a personal device to make virtual learning possible and the district is offering in-school and virtual learning options. Although not consistent across campuses, overall participation is split evenly and the district has adjusted staffing levels as needed. We believe the ISD will maintain very strong reserves due to its historical practices and ability to adjust the budget as needed to maintain structural balance.

Management

We consider the district's management practices good under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Key practices and policies include the following:

- The district uses three years' historical trends when developing the budget and a demographer assists with enrollment projections.
- Management updates the school board monthly on the budget, providing a financial report, and officials can amend the budget as needed.
- Management is developing a new facilities needs plan for future bond issuances, but this will likely not be updated annually.
- The district's debt management policy identifies the types of debt it can issue, thresholds for refunding opportunities, and limits for the use of variable-rate debt, and requires that the board be updated at least once a year

or with every bond sale.

- The operating budget includes a five-year financial forecast that includes revenue and expenditures for the general fund.
- The district adheres to a policy to maintain a yearly unassigned fund balance, as of fiscal year-end, equal to two months' operating expenditures.

Debt

Overall net debt is moderate, in our opinion, at 4.3% of market value and $4,415 per capita. Amortization is slower than average, with 48% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 12.2% of total governmental fund expenditures excluding capital outlay in fiscal 2020, which we consider moderate.

The district privately placed $4.405 million in qualified zone academy bonds, series 2017, with Bank of Texas, which we do not believe adds any additional risk to its debt or liquidity. The bonds have a final maturity in 2027, and the events of default and remedies are standard, with no acceleration or cross-default. Officials noted there is also a qualified construction school note (QCSN) from 2013 that was sold in the public market, with a bullet maturity of 2033 of $143.34 million. The district makes annual transfers out of the general fund to a dedicated reserve fund for this QCSN. The remaining balance is included in the general fund assigned balance to make annual transfers, so there is no concern that the district will not be able to make the bullet payment.

Dallas ISD has $3.5 billion in authorized but unissued debt following the current issuance. In November 2020, voters approved a significant bond authorization totaling $3.5 billion. Projections indicate the district will be able to maintain the current interest and sinking fund rate of 24.2035 cents for both current and additional debt issuances. A preliminary plan reflects annual issuances, under the bond authorization, with $450 million planned for August 2021 and $386 million each year after that through 2029. S&P Global Ratings' projections show that a 5% increase in the tax base would keep the overall net debt near the current level when using the preliminary plan. We also expect the debt burden will remain close to the current level because the district has a goal to maintain the current debt service tax rate and annual issuance amounts could change depending on tax base growth.

Pension and other postemployment benefit liabilities

We do not view pension and other postemployment benefits (OPEB) liabilities as an immediate source of credit pressure for Dallas ISD, as required contributions make up a small 2.3% of total governmental expenditures (fiscal 2020) and are not expected to materially increase in the next few years. Under a special funding situation, the state is obligated to make pension contributions on behalf of school districts, mitigating risks of escalating costs for these districts.

Dallas ISD participated in the following plans as of Aug. 31, 2019:

- Teacher Retirement System (TRS), 75.2% funded, with a proportional share of the net pension liability equal to $595 million; the district paid its fully required contribution of $43.8 million, or 1.8% of total governmental expenditures, toward its pension obligations in fiscal 2020.
- Texas Public School Retired Employees Group Insurance Program (TRS-Care), which provides health insurance

coverage to members of the TRS pension plan. TRS-Care is 2.7% funded and the district has a proportionate share of the net OPEB liability of $690 million; the ISD paid $11.1 million, or 0.5% of total governmental expenditures, toward its OPEB obligations in fiscal 2020.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020