FitchRatings

Public Finance
Tax-Supported
U.S.A.

Dallas Independent School District, Texas

Ratings

Long-Term Issuer Default Rating	AA+

New Issues[a]

$161,990,000 Unlimited Tax Refunding Bonds, Series 2021A	AAA
$485,825,000 Unlimited Tax Refunding Bonds, Taxable Series 2021B	AAA

[a]The 'AAA' long-term rating on the series 2021A and taxable series 2021B bonds reflects the guaranty provided by the Texas Permanent School Fund (PSF), 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

Maintenance Tax Notes	AA+
Unlimited Tax Bonds	AA+

Rating Outlook

Stable

Applicable Criteria

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

Related Research

Fitch Rates Dallas ISD, TX's Series 2021 A and B ULT Rfdg Bonds 'AAA' PSF/'AA+' Underlying (March 2021)

Fitch Affirms Texas Permanent School Fund at 'AAA'; Outlook Stable (January 2021)

Fitch Rates Dallas, TX $293MM GOs, COs 'AA'; Outlook Stable (September 2020)

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New Issue Summary

Sale Date: The series 2021A unlimited tax (ULT) refunding bonds are scheduled to sell competitively on April 7, 2021. The taxable series 2021B ULT refunding bonds are scheduled to sell on April 8, 2021, via negotiation.

Series: $161,990,000 Unlimited Tax Refunding Bonds, Series 2021A; and $485,825,000 Unlimited Tax Refunding Bonds, Taxable Series 2021B.

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

Security: The bonds are payable from an unlimited property tax levied against all taxable property within the Dallas Independent School District (Dallas ISD, or the district) and are further backed by the Texas Permanent School Fund (PSF) bond guarantee program, rated 'AAA' by Fitch. A change in Fitch's assessment of the PSF bond guarantee program would automatically result in a change to the rating on Dallas ISD's series 2021A and taxable series 2021B unlimited tax (ULT) refunding bonds.

The 'AA+' Long-Term Issuer Default Rating (IDR) and underlying ULT bond rating reflect the district's highest level of operating financial resilience, solid expenditure flexibility, a sound revenue framework led by solid growth prospects and a moderate liability burden. Fitch believes that, over the long term, the resumption of normal business activity should produce a return to economic, population and tax base gains, in line with pre-pandemic trends.

Economic Resource Base: Located in northcentral Texas, Dallas ISD is a relatively mature district of approximately 1.1 million residents, with 230 schools serving most of the city of Dallas and all or portions of 11 area cities and towns. The district's population growth of about 11% since 2010 exceeds that of the U.S. but falls slightly below that of the state. Student enrollment totaled approximately 153,861 in fiscal 2020, representing about a 1% decline yoy.

Key Rating Drivers

Revenue Framework: 'a': Most of Dallas ISD's operating revenue originates from property taxes. Fitch expects long-term revenue growth prospects to continue at a pace above inflation but below U.S. GDP. This assumption is based on expectations of further taxable assessed value (TAV) expansion and modest erosion of the enrollment base balanced against the likelihood of increases in per pupil state funding. The district lacks the ability to independently increase operating revenues.

Expenditure Framework: 'aa': Fitch expects district expenditure growth to be in line with or marginally above revenues. The moderate fixed cost burden reflects state support for pension and other post-employment benefit (OPEB) costs.

Long-Term Liability Burden: 'aa': The long-term liability burden is at the low end of the moderate range. The 'aa' assessment incorporates planned use of the district's bond authorizations and the likelihood of further growth in overlapping debt. Nonetheless, Fitch believes the burden will remain moderate, as growth in liabilities should be partially offset by continued population and income gains.

Operating Performance: 'aaa': Underpinning the district's high level of operating flexibility is solid budgetary control, the strength of its existing financial cushion and limited historical revenue volatility. Fitch views the district as well positioned to address challenges posed by the current coronavirus pandemic-induced economic contraction and expects it to remain so through future economic cycles.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A material and sustained improvement in the district's already solid revenue growth prospects, particularly resulting from an increased enrollment trend.
- Although unlikely in the medium term, a 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:

- Material downward pressure on Fitch's expectations for continued solid revenue performance from future TAV, enrollment and associated state funding trends.
- A sustained increase in the district's long-term liability burden to over 20% of personal income from its current level of approximately 10%. This could result from future growth in net pension liabilities (NPLs) or significant debt-funded infrastructure investments without growth in the underlying resource base.
- Failure to implement available policy measures that would offset risks associated with a return to economic contraction consistent with Fitch's coronavirus downside scenario, resulting in an erosion of the district's gap-closing capacity and material depletion of its currently high reserve cushion.

Current Developments

American Rescue Plan

The recently-enacted American Rescue Plan (ARP) will provide $350 billion in direct aid to state and local governments and additional funding for transit systems and school districts (through the states), as well as a significant amount of economic stimulus that should have a positive near-term impact on state and local government revenues. Although Fitch does not expect the stimulus aid to alter the long-term credit fundamentals of state and local governments, it should provide a bridge for governmental entities facing near-term fiscal gaps.

Coronavirus Pandemic — District Fiscal Budgetary Update and 2020 ULT GO Bond Election

As with other local governments, Dallas ISD has experienced the effects of coronavirus mitigation efforts and the related economic shutdown. In line with the governor's stay-at-home directives that took effect on March 31, 2020, the district's educational offerings migrated from face-to-face instruction at school campuses to online teaching/coursework. For fiscal 2021, the district began the school year with purely online education delivery for the first four weeks; this was followed by parents' ability to select either in-person or virtual instruction for the remainder of the fall 2020 semester. About 50% of districtwide enrollment is currently in-person versus online instruction, and district management indicates this balance has largely persisted over the latter portion of the spring 2021 semester.

The Texas Education Agency (TEA) has instituted an average daily attendance (ADA) hold harmless measure, available to most school districts, including Dallas ISD, which was permitted through the first 18 weeks of the 2020–2021 academic year (fiscal 2021), or roughly the entire fall semester. This measure generally allows for a district's projected ADA to be calculated using a three-year average trend of final ADA from the 2017 through 2020 academic years. The ADA hold harmless measure was recently extended by the TEA to include the spring 2021 semester.

The pandemic has materially affected state revenues, and 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. However, changes to K–12 funding for the upcoming 2022–2023 biennium will likely be considered in the current legislative session.

Despite the year's unprecedented challenges, Dallas ISD further strengthened its financial position as of fiscal YE20. This fiscal performance was largely due to overall stability in budgeted operating revenues, including the approximately $61 million received in federal Coronavirus Aid, Relief and Economic Security (CARES) Act funding that replaced a roughly equal amount of

Rating History (IDR and ULT Bonds)

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	1/7/21
AA+	Affirmed	Stable	11/7/19
AA+	Upgraded	Stable	11/25/14
AA	Affirmed	Positive	11/27/13
AA	Affirmed	Stable	11/3/10
AA	Revised	Negative	4/30/10
AA–	Downgraded	Negative	11/25/08
AA	Affirmed	Stable	1/23/04
AA	Assigned	—	2/11/99

budgeted state aid, in addition to some cost savings from the coronavirus school closures and certain one-time revenue resources. Total unrestricted general fund reserves peaked at nearly $852 million, or 59% of spending, which corresponds to a lower $662 million on an unassigned basis. The YE20 reserve cushion, including the assigned and unassigned portions, exceeded the board's stated goal to maintain unassigned fund balance at no less than two months of operating expenditures and remained well above Fitch's 'aaa' reserve safety margin of 5% for this issuer.

Fiscal 2021 Budget Update

For fiscal 2021, the final $1.66 billion general fund operating budget incorporated a modest 1% of spending, or a $12 million operating deficit, built upon a similarly sized enrollment loss of 1% and a focus on certain spending priorities. Actual enrollment to date is down by nearly 6%, which is considered atypical. The declines have largely occurred within the elementary school grades. The associated enrollment-related revenue loss to date has been predominately buffered by the state's aforementioned decision to hold schools harmless for enrollment losses.

In February 2021, much of Texas experienced a severe and prolonged winter storm that resulted in damage to certain district facilities and property, largely from burst water pipes. The district presently estimates these total costs at $12 million–$15 million. This anticipated spending, along with increased maintenance project spending recorded midyear in the operating budget, additional coronavirus-related costs and extended schoolyear expenditures, has led management to revise general fund budget projections to a widened $152 million budget gap, or 8.4% of revised fiscal 2021 operational budget spending, as of March 31, 2021.

Nonetheless, management anticipates the aforementioned fiscal 2021 budget position will further evolve. Future expenditure savings by fiscal YE21 (June 30) are expected to drive an end-of-year general fund surplus. Fitch believes management’s assumption is feasible, while the district's budget assumptions are likely conservative in nature. The district has historically realized annual budget savings, and while current revenue assumptions remain largely unchanged from the original budget, future unbudgeted revenue offsets include potential insurance reimbursement from the recent property damage (yet to be received), along with potential additional federal stimulus dollars, such as ARP funds, that are likely applicable to many areas of increased spending.

Underpinned by solid expenditure flexibility and strong demonstrated fiscal performance, Fitch expects the district to continue to prudently manage its spending to maintain a financial cushion consistent with Fitch's 'aaa' reserve safety margin.

2020 ULT GO Bond Election

In November 2020, Dallas ISD voters approved a large $3.5 billion ULTGO bond authorization directed toward the district's school building and technology needs. This amount represented the bulk of the request despite voters rejecting three out of five bond propositions presented. Those most pressing capital needs are expected to be met by using the district's annually budgeted pay-as-you-go capital spending for O&M. The new bond authorization is projected to fund broad capital needs over the next 10 years while preserving the current, roughly $0.24 per $100 TAV debt service tax rate under fairly conservative TAV growth assumptions.

Credit Profile

The district benefits from its central location within the broad and growing Dallas-Fort Worth MSA economy. The city of Dallas serves as the corporate headquarters for AT&T Inc.; Southwest Airlines Co.; Texas Instruments Incorporated; 7-Eleven, Inc.; HollyFrontier Corp.; Pizza Hut, Inc.; and other large corporate concerns. Large employers in the education, government and health services sectors lend stability to the city's employment base.

The city's role as a wholesale and retail trade center is enabled by a strong transportation network consisting of airports, rail and interstate highways. Dallas Area Rapid Transit provides major employers easy access to a highly skilled workforce to support the growing technology, finance, business and medical service sectors. Top taxpayers represent the utility, air transportation, real estate, real estate development, manufacturing and retail industries, and the tax base has no significant concentration.

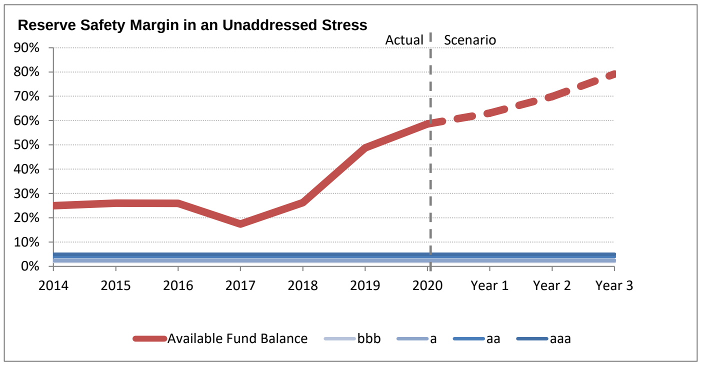
Growth in the district's tax base has outpaced more modest enrollment performance historically. TAV grew by nearly 4% annually on average during the 10-year period ended in fiscal 2019, due in large part to new development, while enrollment declined slightly at under 1%. More recently, district TAV performance has trended positively, with strong annual gains of no less than 8% during fiscal years 2016–2020. Fitch anticipates that the district may experience some softening of its TAV trend in fiscal 2022 (valuation as of Jan. 1, 2021) due to the effects on property values (particularly commercial/retail properties) from earlier pandemic-related economic pressures. However, the underlying strength, size and diversity of the Dallas economy that underpins the district's tax base will remain a credit strength for the district.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of 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, due to either 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.

Dallas Independent School District (TX)

Scenario Analysis



Analyst Interpretation of Scenario Results:

The Fitch Analytical Stress Test (FAST) scenario analysis tool, which relates historical tax 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 its the current baseline and downside stress scenarios, the 'aaa' operating performance assessment reflects Fitch's expectation that, particularly given the district's very high reserve position, it will maintain the highest level of financial resilience.

Scenario Parameters:		Year 1	Year 2	Year 3
GDP Assumption (% Change)		(3.5%)	4.5%	3.5%
Expenditure Assumption (% Change)		0.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* **-5%** *Case Used:* **Baseline**	(5.9%)	5.6%	4.4%
Inherent Budget Flexibility			Midrange	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2014	2015	2016	2017	2018	2019	2020	Year 1	Year 2	Year 3
Total Revenues	1,259,183	1,356,756	1,424,140	1,419,759	1,449,198	1,697,802	1,601,060	1,506,246	1,590,535	1,660,614
% Change in Revenues	-	7.7%	5.0%	(0.3%)	2.1%	17.2%	(5.7%)	(5.9%)	5.6%	4.4%
Total Expenditures	1,170,463	1,300,117	1,443,363	1,443,558	1,380,489	1,426,001	1,444,603	1,444,603	1,473,496	1,502,965
% Change in Expenditures	-	11.1%	11.0%	0.0%	(4.4%)	3.3%	1.3%	0.0%	2.0%	2.0%
Transfers In and Other Sources	143,756	1,403	119,518	5,844	50,912	75,826	10,600	9,972	10,530	10,994
Transfers Out and Other Uses	170,790	43,351	75,226	104,491	7,241	7,167	7,676	7,676	7,830	7,986
Net Transfers	(27,034)	(41,949)	44,292	(98,647)	43,670	68,659	2,924	2,296	2,700	3,008
Bond Proceeds and Other One-Time Uses	-	-	75,000	103,668	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	61,686	14,691	25,069	(122,447)	112,379	340,460	159,380	63,938	119,740	160,656
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	4.6%	1.1%	1.7%	(8.5%)	8.1%	23.8%	11.0%	4.4%	8.1%	10.6%
Unrestricted/Unreserved Fund Balance (General Fund)	334,610	349,832	374,205	251,356	363,628	698,663	851,750	915,688	1,035,428	1,196,084
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	334,610	349,832	374,205	251,356	363,628	698,663	851,750	915,688	1,035,428	1,196,084
Combined Available Fund Bal. (% of Expend. and Transfers Out)	24.9%	26.0%	25.9%	17.4%	26.2%	48.7%	58.6%	63.1%	69.9%	79.2%

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.