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Summary:

Frisco Independent School District, Texas; General Obligation; School State Program

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(Editor's Note: Since the original report published Nov. 16, 2016, the issuer has pulled the refunding portion of the series 2016B bonds and has renamed the bonds series 2016. A corrected version follows.)

Credit Profile

US\$75.79 mil unlt'd tax sch bldg bnds ser 2016 dtd 12/01/2016 due 08/15/2046		
<i>Long Term Rating</i>	AAA/Stable	New
<i>Underlying Rating for Credit Program</i>	AA+/Stable	New
Frisco Indpt Sch Dist unlt'd tax sch bldg bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA+/Stable	Affirmed
Frisco Indpt Sch Dist GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Frisco Indpt Sch Dist Texas PSF/CRS		
<i>Underlying Rating for Credit Program</i>	AA+/Stable	Affirmed
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating and 'AA+' underlying rating to Frisco Independent School District, Texas' series 2016 unlimited-tax general obligation (GO) school building bonds. We also affirmed our 'AA+' underlying rating on the district's existing unlimited-tax GO debt issued under the Texas Permanent School Fund. S&P Global Ratings also affirmed its 'AA+' long-term rating on the district's existing GO debt not issued under the Texas Permanent School Fund. The outlook on all ratings is stable.

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

The 'AA+' rating reflects our view of the bonds' underlying security, which consists of an unlimited ad valorem tax levied on all taxable property in the district. Officials will use series 2016B bond proceeds to refund a portion of existing debt for debt service savings and to fund voter-authorized projects from its 2014 bond election, including the final stages of construction on four schools.

The ratings further reflect our view of the district's:

- Participation in the Dallas-Fort Worth metroplex's deep and diverse economy;
- Rapid economic growth, resulting in increasing property value and enrollment;

- Very strong resident income and wealth levels;
- Very strong finances; and
- Good financial management policies under our Financial Management Assessment (FMA) methodology.

We believe the district's elevated overall debt profile and plans to issue additional debt over the next several years somewhat constrain the rating.

Economy

Frisco Independent School District serves an estimated population of 279,535. Median household and per capita effective buying income in the district are very strong at 185% and 150% of the national levels, respectively. The district's total \$30.6 billion market value in 2017 is extremely strong, in our view, at \$140,246 per capita. Net taxable assessed value (AV) has grown by 33.1% since 2015 to \$30.6 billion in 2017. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 3.1% of net taxable AV.

The district serves a rapidly growing suburban community roughly 25 miles north of Dallas. The district and surrounding area have benefited from the Dallas Metroplex's northward expansion, resulting in healthy residential and commercial growth in the local economy that has made it the state's fastest-growing school district. The current population has increased by more than five times since the 2000 U.S. Census. Due to substantial ongoing development in the district, management expects taxable value growth to mirror recent trends but is conservatively budgeting for slightly slower growth. Several leading corporations have significant operations in the district. In addition, several other leading employers are based within a reasonable commuting distance of the district. Two of the most visible developments include Toyota's ongoing relocation of its North American headquarters to nearby Plano and the National Football League's Dallas Cowboys' construction of a new headquarters in the district. In addition, Liberty Mutual and FedEx are moving some of their operations into the district.

Finances

A wealth equalization formula, based on property values and average daily attendance (property wealth per student), determines state funding for all school districts. Therefore, increases or decreases in average daily attendance (enrollment) can lead to corresponding movements in the amount of state revenue a district receives. Enrollment totaled 55,929 students in 2017. Enrollment increased rapidly in each year from 2013 to 2017.

The district operates 65 facilities and employs more than 3,500 teachers. Enrollment has increased by roughly 2,500 to 3,500 annually over the past decade, but enrollment for 2016-17 came in below projections. The district had budgeted based on an expected increase of 3,000 students, but actual results show growth of 2,500 students. The district's demographic projections indicate enrollment could either reach or exceed 66,000 by 2020. Officials believe the \$775 million 2014 bond election will provide sufficient funds to build the facilities to accommodate projected enrollment growth through 2020.

The district's available fund balance of \$122.8 million is very strong in our view, at 29% of general fund expenditures at fiscal year-end (June 30) 2016. The district reported a surplus operating result of 7.4% of expenditures in 2016. The district depends primarily on property taxes for general fund revenue (62.3%), followed by state aid (34.9%).

Despite continued growth pressure, finances remain very strong due to ongoing revenue growth and conservative

budgeting. The district's formal policy is to maintain a fiscal year-end general fund balance at a minimum 15% of expenditures. Management's informal goal, however, is to maintain expenditures at a slightly higher 20%, which it is currently exceeding. The district adopted a surplus budget reflecting a \$1.87 million addition to fund balance at fiscal year-end 2016. However, actual audited performance reflects a surplus of \$31 million. Officials attribute the better-than-budgeted result to nearly \$10 million in unbudgeted settle-up payments from the Texas Education Agency as well as \$8 million in additional revenue as a result of higher-than-budgeted enrollment growth. The district anticipates using \$7 million of the surplus to fund one-time incentives for staff, as well as another \$6 million to establish a capital projects fund. Officials plan to use the capital projects fund to allow for capital expenditures outside the scope of the district's bond program and will fund it with surplus operations from the general fund.

The district is considered property wealthy under the state funding formula, which means it remits money to the state of Texas for redistribution to other school districts. Because of the state funding formula, the district does not get to fully benefit from growth in its property tax base, which we believe constrains the rating to some degree. However, in an effort to more fully benefit from the property tax growth, the district approached voters with a tax ratification election in August 2016. The election sought authorization to increase the district's tax rate for operations to the maximum amount allowable under state law: \$1.17 per \$100 of AV. However, nearly 60% of voters opposed the authorization. Given that the election occurred subsequent to the adoption of the district's fiscal 2017 budget, the district had to undertake several cost-saving measures to ensure that operations remained balanced. Given management's efforts to contain expenses and previous positive operating results, we anticipate that the district will end the year with, at worst, break-even results.

Management

We consider the district's management practices good under our FMA methodology, indicating financial practices are strong, well-embedded, and likely sustainable.

Key practices include management's:

- Preparation of budgets based on expenditure trends, appraisals and estimates, and enrollment projections from internal and external demographers;
- Quarterly reports on budget-to-actual financial updates to the school board;
- In-depth and conservative investment policy with quarterly investment reports to the board;
- Debt management plan that addresses the types of debt it can issue, the allowable purposes for that debt, and the debt portfolio's composition;
- Capital improvement plan that it updates at least once a year; and
- Formal policy of maintaining year-end general fund balance at a minimum 15% of expenditures, coupled with a higher informal target of 20%.

Debt

We consider overall net debt moderately high at 8.3% of market value and high at \$11,702 per capita. With 28% of the district's direct debt scheduled to be retired within 10 years, amortization is slow. The debt service carrying charge was 19.8% of total governmental fund expenditures excluding capital outlay in fiscal 2016, which we consider elevated.

The district has approximately \$335 million of authorized, but unissued, debt remaining from its 2014 authorization. We understand the district intends to issue the remainder of this authorization semiannually in \$80 million to \$100

million installments until the authorization is exhausted. We believe management will handle additional debt issuance prudently based on future property tax-base growth.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of \$9.1 million, or 1.2% of total governmental expenditures, toward its pension obligations in fiscal 2016. The district also contributed \$1.7 million, or 0.2% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2016. Combined pension and OPEB carrying charges totaled 1.4% of total governmental fund expenditures in 2016.

The district contributes to the Texas Teachers' Retirement System (TRS). It also contributes to the Texas Public School Retired Employees' Group Insurance (TRS-Care) program for retiree health care benefits. These are both cost-sharing, multiemployer, defined-benefit plans. The state typically makes the bulk of contributions to these plans on the district's behalf, with the district's share of contributions equaling a modest 1.4% of total governmental fund expenditures. We do not expect retiree costs to increase substantially over the next few years.

Outlook

The stable outlook on the program rating reflects S&P Global Ratings' assessment of the Texas Permanent School Fund's strength and liquidity.

The stable outlook on the underlying and long-term ratings reflects our opinion that the district's economic and property tax-base growth will likely continue and that management will likely sustain its finances and reserves while managing growth-related pressures. We do not expect to change the rating in the next two years due to growth-driven capital needs and bonding plans. We believe overall debt-to-AV ratios will likely remain high over the next few years but that these ratios will not increase substantially from current levels due to projected tax-base growth.

Upside scenario

While unlikely within the next two years, we could raise the rating if the district's capital needs tapered off, allowing for a significant debt reduction, combined with changes in the current state funding formula that allowed the district to fully benefit from its wealthy tax base.

Downside scenario

While not expected to occur, we could lower the rating if the district were to experience financial deterioration, or if debt issuance exceeds the pace of economic growth, resulting in a weaker debt profile.

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.

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