

AUSTIN, Texas--([BUSINESS WIRE](#))--Fitch Ratings assigns an 'AAA' rating to the following Lewisville Independent School District, Texas' (LISD or the district) unlimited tax (ULT) bonds:

--\$65 million ULT school building bonds, series 2013E.

The 'AAA' rating is based on the guarantee provided by the Texas Permanent School Fund (PSF), whose bond guaranty program is rated 'AAA' by Fitch.

Fitch also assigns an 'AA+' underlying rating to the series 2013E bonds and affirms the 'AA+' underlying rating on the district's \$1.1 billion (on a non-accreted basis) in outstanding ULT bonds.

The bonds are scheduled to sell as early as Oct. 22nd via negotiated sale. Proceeds will be used to construct and renovate various school facilities and to pay related costs of issuance.

The Rating Outlook is Stable.

SECURITY

The bonds are payable and secured by an unlimited property tax levied against all taxable property within the district. The bonds are also insured as to principal and interest repayment from a guaranty provided by the PSF.

KEY RATING DRIVERS

STRONG FINANCIAL POSITION MAINTAINED: General fund reserves and liquidity remain solid, enhancing the district's financial flexibility. Conservative and prudent fiscal management typically facilitates outperformance of the sizeable operating deficits budgeted annually.

FAVORABLE LOCATION AND DEMOGRAPHICS: The district benefits from its location in the broad Dallas-Fort Worth metro area and employment base along major transportation corridors. Population trends exceed those of the state. Income and wealth levels also are above average.

MODERATE TAV GAINS: Recently positive taxable assessed value (TAV) trends that strengthened in fiscal 2014 indicate the tax base has regained its footing from the modest, recessionary declines previously realized. The district's tax base is generally stable and has historically experienced healthy rates of growth. Prospects for further tax base expansion appear favorable.

HIGH DEBT LEVELS: The district's capital improvement program will continue to drive already elevated debt ratios. Strong voter support for bond programs and an above-average pace of amortization mitigate some concern over debt levels.

RATING SENSITIVITIES

The rating is sensitive to material changes in the solid reserve levels that provide a level of financial flexibility consistent with the district's high-grade rating and/or any deterioration in its debt profile. The Stable Outlook reflects Fitch's near-term expectation that such shifts are unlikely.

CREDIT PROFILE

LISD encompasses 127 square miles and is located about 20 miles northwest of Dallas in Denton County. The district serves all or portions of 13 residential communities, including the cities of Lewisville, Flower Mound, Carrollton, and The Colony. Roughly 75% of the

district is built-out and both enrollment gains and growth in TAV have moderated as the district's service area has matured.

Unemployment rates in Denton County are consistently below regional, state, and national averages and local wealth measures exceed state and national levels by 10%-60%, depending on the community within the district's boundaries.

On average, enrollment has grown just over 1% annually over the last five fiscal years compared with a roughly 5% average annual growth rate during the prior decade from fiscal 1997-2007. District enrollment totals approximately 52,600 students in fiscal 2014. Full build-out of the district is estimated at 65,000-70,000 students.

TREND OF SOLID SURPLUSES BOLSTER RESERVES

The district has generated operating surpluses in three of the last five fiscal years. Audited fiscal 2012 results reflect management's repeated outperformance of the year's adopted operating budget that included a large deficit under conservative assumptions. Additional federal and state revenue and enrollment that was higher than budgeted contributed to the year's financial performance. Also, the district realized salary savings from budgeting full staffing costs and an incentivized 'early notice' program that has been offered in recent fiscal years, allowing the district to reduce or eliminate some of its more highly paid positions.

The district closed the year's nearly \$18 million budgeted operating gap and added a sizeable \$14 million to general fund reserves. This brought the unrestricted fund balance up to a very strong \$146.5 million or approximately 39% of spending. This amount includes \$45 million (equivalent to about 12% of fiscal 2012 general operational spending) held as a minimum reserve according to the district's formal fund balance policy.

MODEST DRAWDOWN EXPECTED FOR FISCAL 2013

For fiscal 2013, the district's budget reflected a slightly larger \$28 million state aid cut

in the second year of reduced state funding levels to all Texas school districts over the biennium (fiscal 2012 and 2013) due to the state's own projected revenue shortfalls. The year's \$394 million operating budget was adopted with a \$23 million drawdown, consistent with budgeting practices over the past four fiscal years. Although most of the year's budget gap was predictably closed, management currently anticipates year-end fiscal 2013 general operations will include a \$7 million drawdown on reserves or modest 2% of actual budgetary spending. Reserves are projected to remain strong at approximately \$140 million or 37% of spending.

The \$406 million adopted general operating budget for fiscal 2014 includes a 3% pay increase (estimated at about \$9 million impact to the general fund) and projects another \$23 million drawdown (about 6% of budgeted spending). Management currently anticipates a lower \$10 million use of reserves is the more likely offset to actual spending levels by year's end and some additional, moderate use of reserves possible in future fiscal years.

Despite this changing trend in the district's annual financial performance, Fitch recognizes the modest nature of the structural operating imbalance and management's history of maintaining reserves well above its stated minimum. Fitch also takes comfort from unreserved/unrestricted reserves that have totaled no less than 20% of spending since fiscal 2008 and management's current expectations of reserves at no less than 25% or a still solid three months of spending going forward. Material widening of the structural imbalance or failure to meet the stated reserve target would be of concern to Fitch.

HIGH DEBT/ MANAGEABLE CARRYING COSTS

Debt ratios are high, reflecting the district's prior fast-growth years. Overall debt levels approximate \$6,000 on a per capita basis and 6.4% of fiscal 2014 market value on an accreted basis. Principal amortization is slightly above average with roughly 58% of principal maturing within 10 years. The district's debt profile is primarily comprised of fixed-rate debt with some use of capital appreciation bonds. Inclusive of the new money issuance, annual debt service is projected to rise to a maximum of \$115.7 million (maximum annual debt service [MADS]) in fiscal 2022, up from \$109.2 million in fiscal 2014.

Approximately \$103 million in authorized but unissued bonds remain from the nearly \$700 million bond package approved by 58% of the voters in May 2008, the largest in the

district's history. Management reports issuances will rely on further tax base expansion as plans are to stay at or below the maximum debt service tax rate promised voters of \$0.45 per \$100 of TAV as the borrowing continues. The district's fiscal 2014 interest and sinking (I&S) fund tax rate of just under \$0.44 per \$100 of TAV provides little margin under the promised rate but some capacity in relation to the statutory cap of \$0.50 for new debt issuance; the rate benefits from TAV growth and plans for modest use of debt service fund balance. Some additional use of the district's roughly \$22 million debt service fund balance projected at year-end fiscal 2014 is deemed likely according to management in order to manage the tax rate if near-term TAV trends fall below expectations.

A recently completed facilities assessment has allowed management to sharpen its focus on district-wide facility needs. As a result, most of the outstanding bond authorization is planned for near-term use on prioritized school facility and technology needs while approximately \$30 million will be set aside to provide a cushion towards facility contingency needs. A near-term demographic study will also inform the district's debt and capital plans, which are expected to include a bond election no earlier than November 2015 according to district officials. Although future capital needs exist, Fitch believes they should remain manageable in this fairly mature district. This should reduce the district's reliance on continual tax base growth to fund capital needs with debt.

OTHER LONG-TERM LIABILITIES MODERATE

The district's pension and other post-employment benefit (OPEB) liabilities are limited because of its participation in the state pension plan administered by the Teachers Retirement System of Texas (TRS). TRS is a cost-sharing, multiple-employer plan in which the state rather than the district provides the bulk of the employer's annual pension contribution. The district's annual contribution to TRS is determined by state law as is the contribution for the state-run post-employment benefit healthcare plan; the district consistently funds its annual required contributions. Carrying costs for the district (debt service, pension, OPEB costs, net of state support) totaled a manageable 18% of governmental fund spending in fiscal 2012, reflective largely of the district's debt load.

TAV GAINS STRENGTHEN IN FISCAL 2014

The district's tax base is stable and primarily residential in character. Gains made in prior fiscal years have historically been strong, averaging a compound annual growth rate

of 6.5% from fiscal years 2003-2009. Recessionary TAV declines were moderate and relatively short-lived as the district returned to a pattern of modest annual TAV growth of about 2% beginning in fiscal 2012. A balanced mix of residential and retail/commercial gains saw TAV growth strengthen to 5% in fiscal 2014. Fitch believes higher but still moderate TAV increases are likely over the intermediate term given the development underway on the first phase of a large retail store and distribution center that is anticipated to add about \$1 billion in additional value at completion.

In addition to the sources of information identified in Fitch's report 'Tax-Supported Rating Criteria', this action was additionally informed by information from Creditscope, Texas Municipal Advisory Council, and IHS Global Insight.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

Additional Disclosure

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