Austin Independent School District ("AISD")

Issuer: Austin Independent School District		
Assigned	**Rating**	**Outlook**
Unlimited Tax School Building Bonds, Series 2023 (Non-PSF)	AAA	Stable
Affirmed	**Rating**	**Outlook**
Unlimited Tax Bonds (PSF)	AAA	Stable
Unlimited Tax Bonds (Non-PSF)	AAA	Stable

Methodology

U.S. Local Government GO Methodology

ESG Global Rating Methodology

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Rating Summary: The long-term rating assignment on the Series 2023 Unlimited Tax School Building Bonds (Non-PSF) ("Series 2023 Bonds") reflects AISD's (the "District") strong financial management policies and practices guided by an experienced leadership team, as evidenced by the management team's ability to successfully navigate through the COVID-19 pandemic despite the need to remit local tax revenues to the State as part of the States' education funding redistribution construct. The rating also incorporates a diverse economic base that has experienced rapid growth, particularly in terms of property tax base growth, and a well-managed, conservative debt profile.

Proceeds of the Series 2023 Bonds will be used for the construction and acquisition of school buildings, upgrading technology systems, and stadium improvements. The issuance was authorized by the electorate through a November 2022 bond election and subsequent bond order adopted by the district's Board of Trustees ("Board").

The Series 2023 Bonds are direct obligations of the District, payable from a direct and continuing pledge of ad valorem taxes on all taxable property within the District, without limitation as to rate or amount. The Bonds are Non-PSF obligations, meaning that they are not supported by a guarantee under the Texas Education Administration's Permanent School Fund (PSF) Guarantee Program. KBRA rates both PSF and Non-PSF bonds based solely on the credit standing of the District, without taking into account the PSF Guarantee.

AISD is the eighth-largest school district in the State of Texas (the "State"; KBRA-rated AAA/Stable). The District operates 115 schools consisting of elementary, middle, high, early college, academy, magnet, alternative, and community schools. With over 73,500 students enrolled for school year ("SY") 2023, the District has a diverse student community. It includes children from all economic levels and backgrounds, and supports more than 90 languages, with 11 languages other than English taught in the schools, including Chinese, Japanese, and American Sign Language.

The District's enrollment experienced a notable decline of 7.3% in SY 2020 to 2021 as a result of the pandemic and the ongoing competition from area charter schools. Management also noted that some students had opted to be homeschooled even when in-class instruction resumed, which was a phenomenon observed across Texas. KBRA understands that AISD has early indications of stabilization in enrollment and is actively attempting to reclaim unenrolled students by modernizing school facilities.

The District is subject to an annual transfer of a significant amount of tax revenues to the State, known as the recapture process under the Chapter 49 of the Texas Education Code, to redistribute local maintenance and operations (M&O) tax revenue from property-rich school districts such as AISD to property-poor ones. AISD has been by far the largest payer of recapture revenue among Texas school districts, given the pace of its tax base growth despite having a declining enrollment trend. The District's recapture payment accounted for over 50% of the GF expenditures for FY 2022, and KBRA views this to be a primary hurdle for AISD achieving continually-balanced operations. Nonetheless, KBRA considers the District's financial condition to be strong as evidenced by the District's track record of managing expenditures and trimming personnel costs as reflected in the District's conservative budgeting and fiscal monitoring practices.

The service area comprises of approximately 230 square miles located entirely within Travis County (the "County") and centered around one of the fastest growing economic centers in the U.S. – City of Austin (the "City"). KBRA considers the local economy to be a key credit strength for the District, given the pace of population and employment growth, a diverse and fast-growing tax base, and relatively-low unemployment and elevated income levels. Assessed valuation (AV) grew at a compound annual growth rate (CAGR) of 10.6% from FY 2017 through FY 2022. Although annual AV growth slowed to 6.4% for FY 2021-2022, the lowest rate experienced since FY 2013, FY 2023 District AV of $170.8 billion equates to an exceptionally strong $173,067 per capita.[1]

[1] District population for this calculation is approximated based on the City of Austin population as provided in the POS for 2023 from the City of Austin Planning & Zoning Department's City. However, the boundaries of the District and the City are not exactly coterminous and therefore the population of the District and the City are not exactly the same.

In KBRA's view, the District's management experience, practices, and policies provide a strong capacity to manage its complex finances and the State's recapture of local property tax revenue. While State statute limits the tax rate collected to fund operations, the District maintains unlimited flexibility to set its debt service levy. Additionally, the District adheres to a reserve policy to maintain an unassigned fund balance equal to at least 20% of GF budgeted expenditures – a level that KBRA considers to be excellent.

KBRA views the District's overall debt and continuing obligations profile as strong based on its low debt burden, conservative debt structure, and modest fixed costs as a percentage of governmental expenditures. Inclusive of the Series 2023 Bonds being offered, the District will have approximately $2.02 billion of direct debt outstanding. The District's overall debt burden remains very affordable, with overall direct and indirect debt measuring $4,299 per capita and 2.2% of the 2023 of full market value.

The Stable Outlook reflects KBRA's expectation that management will continue to effectively manage the District's finances while balancing the need to remit tax revenues to the State, the tax base will continue to grow, and the debt profile will remain conservative and well-managed while also addressing the capital needs of the District.

Key Credit Considerations

The rating actions reflect the following key credit considerations:

Credit Positives

- Strong financial management policies and an experienced, effective management team.
- A diverse and growing economic base with AV in the District's boundaries having grown at a CAGR of 8.8% from FY 2017 through FY 2022.
- A highly conservative debt profile with a rapid amortization schedule, manageable long-term retirement liabilities (pension and OPEB), and low overall net debt burden.

Credit Challenges

- State recapture of the District's tax revenues reflects over 50% of the District's GF expenditures for FY 2022 and FY 2023.
- The District's enrollment gradually declined in the 2010s and experienced a decline of 7.3% in SY 2020-2021. KBRA understands that AISD has early indications of stabilization in enrollment and is actively attempting to reclaim unenrolled students by modernizing school facilities.

Rating Sensitivities

▪ Not applicable at AAA rating level.	+
▪ While not expected a trend of decline in the ad valorem tax base may negatively impact the rating.	-

Key Ratios	
Population, 2023[1]	986,713
Assessed Value (2023)	$170,767,219,786
AV 5 year CAGR (2018 to 2023)	10.6%
Proforma Overall Direct and Indirect Debt as a % of FMV	2.2%
Proforma Debt Amortization, 10 Years	53.1%
FY 2022 Unassigned GF Balance as a % of GF Expenditures	
Including Recapture	12.6%
Excluding Recapture	25.5%
Top Ten Taxpayers as a % of Tax Base (2023)	2.5%
Unemployment Rate (November 2022)	
City of Austin	2.6%
Travis County	2.7%
State of Texas	3.7%
United States	3.4%

[1] As provided in POS, District population is estimated based on the City of Austin population as estimated by the City of Austin Planning & Zoning Department's City. District is not however coterminous with the City.

Rating Determinants (RD)	
1. Management Structure and Policies	AAA
2. Debt and Additional Continuing Obligations	AAA
3. Financial Performance and Liquidity Position	AA+
4. Municipal Resource Base	AAA

A detailed review of each rating determinant as well as KBRA's assessment of Bankruptcy and ESG factors can be found in the report dated October 14, 2022.

RD 2 Update: Debt and Additional Continuing Obligations Update

KBRA views the District's overall debt and continuing obligations profile as strong based upon its low debt burden, conservative debt structure, and low fixed costs as a percentage of governmental expenditures.

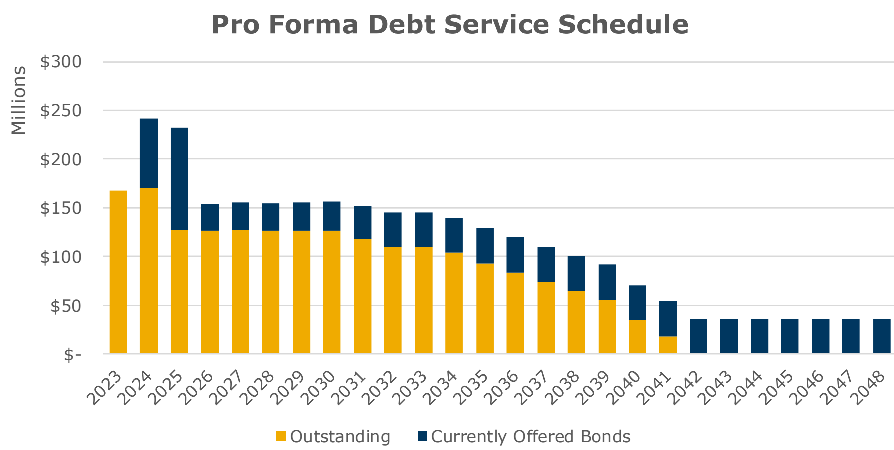
New Five-Year Bond Program Approved in November 2022

The District in 2022 closed out its 2017 bond program which funded $1.05 billion in capital projects. In November 2022 voters approved a new $2.44 billion five-year bond program that will provide $2.3 billion for general capital purposes, $75.5 million for technology, and $47.4 million for stadiums. The currently offered bonds will be the inaugural issuance under the 2022 authorization, under which the District's debt service levy rate is expected to increase by one cent per $100 of AV, while rising property values are expected to reduce the M&O component over two years.

Direct and Indirect Debt

KBRA views the District's debt profile as conservative. The District's entirely fixed rate portfolio amortizes rapidly, with all debt scheduled to amortize by 2048.

Figure 1



Source: POS

Pro forma debt, inclusive of the currently offered bonds, totals $2.02 billion. Direct and overlapping debt is affordable a 2.2% of full market value and $4,299 per capita. At FYE 2022, approximately 85% of the bonds issued by the District are guaranteed by the Texas Permanent School Fund. The currently offered bonds will not be guaranteed due to limited capacity currently authorized under the guarantee program.

Figure 2

Debt Metrics	
Direct and Overlapping Debt Per Capita	$ 4,299
Direct and Overlapping Debt as a % of Full Market Value	2.2%
Principal Amortization 10-Yrs	53.1%
Fixed Costs as a % of Governmental Expenditures'	8.3%

Source: POS, ACFR, and KBRA Calculations

Pension

The District participates in a cost-sharing, multiple-employer defined benefit pension administered by the Texas Retirement System of Texas (TRS). Contributions are statutorily determined; however, State statutes require that employee and employer contributions be set at a level sufficient to pay the normal cost and amortization of the unfunded liability over a period not to exceed 30 years. The State pays its employer contributions as well as a portion of employer contributions of local school districts. The State/employer contribution rate in FY 2022 was 7.75% of payroll while the employee contribution rate was 8.0% of payroll.

KBRA views the District's FY 2022 annual pension contribution of $19.5 million as low at 0.9% of governmental expenditures. The plan is well funded with fiduciary net position as of FYE 2021 equivalent to 88.8% of the total pension liability.

OPEB Liabilities

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care), which is a cost-sharing, multiple-employer defined OPEB Plan administered through a trust by the TRS Board of Trustees. TRS-Care provides basic health insurance benefits at no cost to all retired employees who are members of the TRS.

OPEB is funded on a pay-as-you-go basis. For FY 2022, the District's contribution was $5.0 million, or 0.2% of total government expenditures. The District's share of the net OPEB liability was $261 million at FYE 2022 versus $257 million at FYE 2021.

Total Fixed Costs

The District's fixed costs including debt service, pension, and OPEB payments totaled $176.6 million, or 8.3% of governmental fund expenditures in FY 2022, which KBRA views as low.

RD 3 Update: Financial Performance and Liquidity Position

KBRA considers the District's financial condition to be strong despite having to budget significant amount of recapture payment mentioned in RD 1. The District has a track record of managing expenditures and trimming personnel costs as reflected in the District's conservative budgeting and fiscal monitoring practices. Excluding recapture payments, the District would have generated surpluses for the last five fiscal years with unassigned fund balance averaging above 32% as a percentage of GF expenditures for the same period.

Sources of General Fund (GF) Revenues

Property taxes (shown as local and intermediate sources) comprise approximately 92% of the District's GF revenue in FY 2021. State aid (5%) and federal aid (3%) constitute the remainder. The percentages of revenues represented by these sources have remained generally stable over the last few years.

COVID-19 Pandemic Federal Stimulus Relief

In order to address the impact of the pandemic, the District received Elementary and Secondary School Emergency Relief (ESSER) I funding of $17 million under the CARES Act, ESSER II funding of $69.3 million under CRRSA Act, and ESSER III funding of $155.6 million under the American Rescue Plan Act. The District plans to utilize ESSER II and III to supplement its FY 2022 and FY 2023 Budget to maintain unassigned fund balance greater than 20% of GF expenditure as per policy.

FY 2022 Financial Operations

The District ended FY 2022 with an operating surplus of $31.61 million, attributable to an increase in property tax revenues resulting from assessed property valuation growth.

Figure 3

Austin Independent School District General Fund Summary Financials FYE June 30 (dollars in thousands)	2018	2019	2020	2021	2022
Summary Statement of Income					
REVENUES					
Local And Intermediate Sources	$ 1,200,564	$ 1,322,754	$ 1,341,437	$ 1,403,228	$ 1,445,190
State Program Revenues	63,602	77,599	58,077	71,453	81,068
Federal Program Revenues	30,011	38,893	22,666	43,526	31,076
Total Revenues	1,294,178	1,439,246	1,422,180	1,518,207	1,557,334
EXPENDITURES					
Instructional Related Services	426,632	421,437	449,638	442,842	456,560
Instructional and School Leadership	91,503	88,947	90,952	102,970	73,425
Pupil Services	92,695	92,209	91,105	96,797	82,563
Administration	22,586	22,178	27,415	29,148	23,779
Support Sciences	117,470	117,384	118,972	149,047	106,866
Ancillary Sciences	8,078	7,633	7,885	8,588	6,811
Debt Service	496	477	460	460	1,205
Capital Outlay	1,485	1,806	3,022	2,539	995
Intergovernmental Charges	550,510	678,302	648,514	715,966	773,340
Total Expenditures	1,311,456	1,430,373	1,437,962	1,548,357	1,525,543
Increase (Decrease) in Revenues Over (Under) Expenditures	(17,278)	8,873	(15,782)	(30,151)	31,791
Other Financing Sources (Uses)	137	(5,000)	(4,064)	(2,312)	(185)
Net Change in Fund Balance	(17,140)	3,873	(19,846)	(32,463)	31,605
Beginning Fund Balance	301,589	284,449	288,322	268,476	236,013
Prior Period Adjustment	-	-	-	-	(337)
Ending Fund Balance	284,449	288,322	268,476	236,013	267,281
Summary Balance Sheet					
ASSETS					
Cash, Cash Equivalents, and Investments	412,099	475,436	960,219	960,310	472,255
Property Taxes Receivable, Net	18,019	18,885	15,401	16,544	16,115
Due from Other Funds	70,999	66,299	57,840	26,157	222,890
Other Receivables	7,186	11,701	24,084	25,372	13,816
Other	217	496	279	240	356
Total	508,520	572,817	1,057,823	1,028,622	725,432
LIABILITIES					
Accounts Payable	21,227	38,176	57,795	11,957	8,768
Payroll Deductions, Withholdings, and Accrued Wages Payable	32,810	41,013	50,256	49,877	46,660
Due to Other Funds	467	907	8,077	-	199,224
Payable to Other Funds	153,286	187,771	646,989	715,458	188,920
Unearned Revenues	1,423	1,158	-	76	-
Total Liabilities	209,213	269,024	763,116	777,368	443,572
Deferred Inflows	14,859	15,471	26,232	15,242	14,579
FUND BALANCES					
Nonspendable	217	496	279	240	356
Assigned	18,019	17,350	35,116	6,590	75,213
Unassigned	266,213	270,477	233,081	229,183	191,713
Total	284,449	288,322	268,476	236,013	267,281
Unassigned Fund Balance as a % of Expenditures	20.3%	18.9%	16.2%	14.8%	12.6%

Source: ACFRS

Significant Recapture Payment

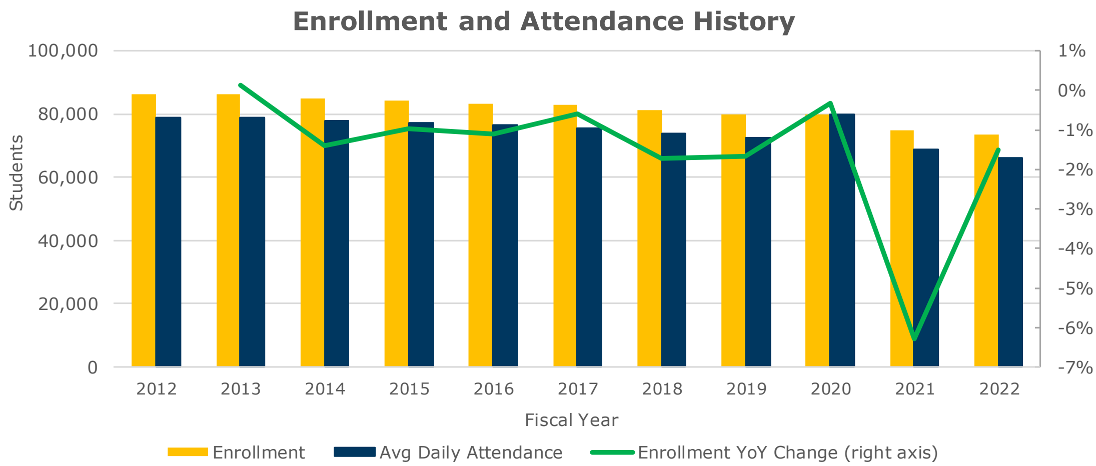
The District's recapture payment accounts for 46% of the GF expenditures for FY 2021, and KBRA views this significant payment to be a primary hurdle for AISD in achieving balanced operations. Additionally, recapture payments are projected to increase at a CAGR of 18.7% between FY 2015 to FY 2023 (Adopted Budget) while enrollment has been trending downward at a CAGR of 1.3% during the same period.

Enrollment Trends

From SY 2011-2012 through SY 2019-2020, enrollment declined at a 0.8% CAGR, partially due to competition from charter schools (Figure 6). Management acknowledges that rising cost of living has pushed some young families out to the suburbs, but notes that this dynamic is offset by continued population growth in the District. While during the pandemic enrollment dropped by 6.3% in SY 2020-2021, this decrease was not unique to AISD, as around 150,000 students across Texas opted for homeschooling after the in-class instruction resumed.

KBRA understands that AISD has early indications of stabilization in enrollment and is actively attempting to reclaim unenrolled students. According to AISD management, enrollment loss has decelerated, with enrollment change expected to be flat during SY 2022-2023. Management notes that modernized campuses have successfully attracted students and that reclaiming student is a key goal of the 2022 bond program through the potential modernization of further campuses.

Figure 4



Source: AISD

FY 2023 Budget and Year-to-Date Revenue

The District plans to utilize $31.2 million of ESSER III funding to close the budget gap of $26 million adopted for FY 2023. General fund revenues are projected to increase by 7% with property tax revenues projected to increase by 8.5% in FY 2023. As mentioned under RD 1, with the rising property value in the service area, the Board approved a reduction in the combined tax rate to $0.9966 per $100 of AV from a 2022 tax rate of 1.0617 per $100 of AV. Budgeted expenditures include a $845.9 million recapture payment, which equals an increase of 11.3% from FY 2022 projected payment and represents over 50% of GF expenditures.

Despite experiencing relatively flat GF revenue growth for FY 2022, the District is estimating a GF surplus of approximately $31.6 million, a significant improvement from $24.5 million of GF deficit per the amended budget. The improvement was driven by management's ability to trim operating expenses further by 2% against budgeted amount. The recapture payment was $762.8 million for the year, slightly above the $761.3 million budgeted for FY 2022. The payment continues to remain significant, equaling over 50% of GF expenditures for the first time since FY 2017.

Liquidity Position

KBRA views the District's liquidity position as strong. FY 2022 total governmental funds cash and investments totaled $874.1 million, representing 151 days cash on hand (DCOH).