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**Summary:**

# Mesquite Independent School District, Texas; School State Program

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Credit Profile		
US\$85.71 mil unlted tax rfdg & sch bldg bnds ser 2007 dtd 08/01/2007 due 08/15/2028		
<i>Long Term Rating</i>	AAA/Stable	New
<i>School Issuer Credit Rating</i>	AA/Stable	New
Mesquite Indpt Sch Dist PSF		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<i>School Issuer Credit Rating</i>	AA/Stable	Affirmed
OMesquite Indpt Sch Dist Var Rate Sch Bldg Unltd Tax Ser 2003A		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
<i>School Issuer Credit Rating</i>	AA/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' program rating and 'AA' issuer credit rating (ICR), and stable outlook, to Mesquite Independent School District, Texas' series 2007 unlimited-tax refunding and school building bonds. In addition, Standard & Poor's affirmed its 'AAA' program rating and 'AA' ICR, with a stable outlook, on the district's parity GO debt.

The program rating reflects the Texas Permanent School Fund guarantee's security.

The ICR reflects the district's:

- Diverse economy and location in the Dallas-Fort Worth MSA;
- Strong financial position due to historically sound financial performance that has led to consecutive surpluses; and
- Significant state support for debt service and operations.

An offsetting factor is the ongoing capital pressures resulting from steady enrollment growth and renovation needs; coupled with additional bond issuances that should keep debt levels elevated.

The bonds are secured by unlimited ad valorem taxes. Officials will use bond proceeds to refund a portion of the district's bonds outstanding for debt service savings. The remainder will be used to construct, improve and equip school buildings within the district.

Mesquite Independent School District (population 165,526) is on the eastern border of Dallas, providing convenient access to the deep and diverse employment opportunities within the Dallas Metroplex. The leading employers located in the district include the district itself (about 4,365 employees), Town East Mall (2,750), and United Parcel Service (2,350). Mesquite serves as eastern Dallas' retail center, as it contains a large retail district composed of the Town East Mall and adjacent retail developments. The city's 2007 unemployment rate through April was 4.7%, which was in line with state and national levels. Mesquite's household effective buying income was above average at

121% of the national level, although per capita income levels were average at 99% of the national average.

The district serves the city of Mesquite ('AA' GO rating) and a portion of Balch Springs. The district's assessed value (AV) stood at \$6.7 billion for fiscal 2007 following significant 20% growth during the past five years. Taxpayer concentration is low: the 10 leading taxpayers account for just 6.2% of AV. Single-family residential properties account for 59% of total AV, and commercial properties account for 27%. New homes in the district are affordable, ranging from \$110,000-\$150,000, which results in a below-average per capita market value of \$40,338. Reflecting the strong residential new-home development in the district, student enrollment growth averaged 1.4% annually during the past five years (2001-2007), increasing to a level of 35,984 for fiscal 2007. Enrollment is projected to grow at about the same pace in the future, with more than 6,000 new home sites expected to be built in the city over the next 15 years, mostly on the southeast side. Commercial and industrial development is also expected to continue. Both Mesquite and Balch Springs are about 70% built out.

Mesquite Independent School District's financial performance has been strong despite growth-related operating and capital pressures; in addition, teacher salaries have been increasing in order to improve turnover and recruitment. Three consecutive years of positive financial operations, including \$2.7 million and \$4.1 million operating surpluses in fiscals 2004 and 2005, respectively, have increased the ending general fund balance to \$40.1 million, or a high 20% of expenditures. Management budgeted to improve reserve levels to provide an additional operating cushion due to uncertainty surrounding state legislative changes.

The district ended fiscal 2006 with a \$4.5 million surplus, resulting in an unreserved general fund balance of \$44.6 million, or a strong 21% of expenditures. Steady student enrollment growth has led to a modest wealth per student. The district, therefore, is a beneficiary of Texas' school finance system. State aid accounted for 50% of fiscal 2006 revenues, down slightly from 59% in fiscal 2002. District officials adopted a balanced budget in fiscal 2007 and plan to add \$1 to \$2 million to fund balance due to increased state aid. The fiscal 2008 budget is balanced and management has no plans to draw down the general fund balance.

The property tax levy's debt service portion is forecast to increase by 3 cents in fiscal 2008 to accommodate debt service payments on the current and previous bond programs. The local maintenance tax rate has declined to \$1.33 per \$100 of AV in fiscal 2007 due to the Texas Legislature's passage of new public school reform legislation that reduced school districts' local operating and maintenance tax rates by 11% in fiscal 2007 and an additional 22% in fiscal 2008. The school board chose to levy an additional four cents per \$100 of AV from the four cents of local-enrichment property taxes allowed by the reform legislation.

Mesquite Independent School District's financial management practices are considered strong under Standard & Poor's FMA methodology, indicating these practices are strong, well embedded, and likely sustainable.

State debt service support programs provide for about 50% of the debt service on the district's bonds. This support lowers the district's overall net debt burden to a moderate \$2,163 per capita, or an above average 5.4% of market value. Amortization is average, with 55% of debt retired in 10 years. This issuance is the district's first issuance of its \$180 million 2007 authorization. The district has a strong track record of successful bond elections. The district has had six successful elections over the past 15 years, with the electorate approving over \$730 million in bonds that carried an average voter approval rate of 78%. Officials plan to issue additional debt in fiscal 2009. The 2007 authorization is projected to address the district's capital needs over the next five to seven years.

## Outlook

The stable outlook on the enhanced rating reflects the strength and liquidity of the Texas Permanent School Fund. The stable outlook on the ICR reflects Standard & Poor's expectation of continued strong financial performance and good fiscal planning by the district. Upward rating potential is limited due to ongoing capital pressures related to steady enrollment growth and renovation needs, leading to additional bond issuances that should keep debt levels elevated. In addition, state-imposed constraints inhibit the district's ability to fully benefit from its deep and diverse economic base preclude a higher rating.

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