Summary:
Leander Independent School District, Texas; General Obligation; School State Program

Primary Credit Analyst:
Kristin Button, Dallas (1) 214-765-5862; kristin.button@spglobal.com

Secondary Contact:
Stephen Doyle, Dallas (1) 214-765-5886; stephen.doyle@spglobal.com

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Rationale

S&P Global Ratings assigned its 'AAA' long-term rating and 'AA' underlying rating (SPUR) to Leander Independent School District (ISD), Texas' series 2019 unlimited-tax refunding bonds series A and taxable series B. At the same time, S&P Global Ratings affirmed its 'AA' rating on the district's previously issued general obligation debt. The outlook is stable.

The long-term rating reflects our view of the district's eligibility for, and participation in, the Texas Permanent School Fund (PSF) bond guarantee program, which provides the security of a permanent fund of assets that the district can use to meet debt service on bonds guaranteed by the program. (For more information on the program rating, see our report on the Texas PSF, published Jan. 25, 2017, on RatingsDirect.)

Revenue from an unlimited ad valorem tax on all taxable property within the district secures the bonds. Bond proceeds will refund certain debt for savings. Leander ISD has been an extremely fast-growing district, adding over 1,000 students per year, which has resulted in the issuance of substantial voter-authorized debt to construct new facilities to meet capacity needs. The district's location near Austin is expected to spur ongoing growth pressure on finances and debt. However, the district exhibits prudent fiscal management with conservative budgeting and very strong reserves that it expects to maintain.

The SPUR reflects our opinion of the district's:

- Favorable location in the broad and diverse Austin metropolitan statistical area (MSA), coupled with very strong income levels;
- Expanding property tax base, which is expected to continue given development planned or underway;
- Very strong reserves equal to 41% of general fund expenditures in fiscal 2018; and
- Strong financial management practices under our Financial Management Assessment (FMA) methodology, with
well-embedded and likely sustainable policies and practices.

- We believe these strengths are somewhat offset by the district’s slow amortization, high debt service carrying charges, and high overall net debt per capita and as a percent of market value.

**Economy**

Leander Independent School District serves an estimated population of 190,475. Median household and per capita effective buying incomes in the district are very strong at 156% and 138% of national levels, respectively. At $133,798 per capita, the 2019 market value totaling $25.5 billion is, in our opinion, extremely strong. Net taxable assessed value (AV) grew by a total of 22.0% to $25.5 billion in 2019 since 2017. The 10 largest taxpayers make up an estimated 3.5% of net taxable AV, which we consider very diverse.

The approximately 200-square-mile district is northwest of downtown Austin in Williamson and Travis counties. It is one of the fastest-growing districts in the state, as reflected by its large tax base and enrollment growth rates. The district's tax base is predominantly residential, accounting for approximately 75% of AV. Strong residential development continues, including one subdivision that should add almost 3,000 residences over the next 10 years. Officials report that a large new commercial development could begin construction in the next year or two but it is still in the very early stages.

**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 increases or decreases, respectively, in the amount of state revenue a district receives. Student enrollment for 2019 totaled 39,949. Enrollment increased in each year from 2015-2019 and demographer projections reflect growth of approximately 1,000-1,200 students per year.

The district's available fund balance of $131.1 million is very strong, in our view, at 41% of general fund expenditures at fiscal year-end (Aug. 31) 2018. The district reported a deficit operating result of 1.6% of expenditures in 2018. The district depends primarily on property taxes for general fund revenue (72.2%), followed by state aid (23.3%).

Leander ISD has a long history of adopting deficit budgets and then producing much better results because of conservative budgeting. Revenue assumptions for enrollment and tax base growth are conservative and expenditures assume positions will be 100% filled, so vacancies result in savings. In fiscal 2018, the deficit was due to some large one-time capital items. For fiscal 2019, management anticipates a surplus of about $5 million due to conservative budgeting on enrollment and state funding.

The district levies a total property tax rate of $1.51 per $100 of AV, which includes $1.04 for maintenance and operations (M&O) and $0.47 for interest and sinking fund (I&S). Although the I&S tax is near the state-mandated 50 cent test limit, it has remained constant for at least the past five years and is expected to remain there.

Although we view the I&S tax as elevated, the rate includes approximately five cents to generate additional revenue for early redemptions of future capital appreciation bonds (CAB) debt service requirements. In fiscal 2018, this equaled $28 million of early paydowns. In addition, the district sets aside two cents of the M&O tax for major maintenance, including buses, technology, and capital equipment, allowing it to pay-as-you-go for these items rather than adding to
its debt profile.

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

Key factors included in this assessment are:

• Management works with a demographer, uses 10 years of historical data, and consults with the county AV office regarding tax base growth for budgeting revenues and expenditures.
• Management prepares budget-to-actual reports and presents them to the board monthly.
• A formally adopted investment policy follows state guidelines and monthly updates, with holdings and performance, are provided to the board.
• A long-term capital improvement plan looks out 10 years and is updated annually to identify sources and uses of funding.
• A five-year financial forecast is detailed and updated annually.

Management adheres to a formally adopted debt management policy that primarily follows state requirements and was recently enhanced in March 2018.

A formally adopted general fund reserve policy requires the district to maintain an available general fund balance of at least two months' operations.

Debt
Overall net debt is moderately high, in our opinion, as a percentage of market value at 9.4%, and high on a per capita basis at $12,070. With 35% of the district's direct debt scheduled to be retired within 10 years, amortization is slower than average. Debt service carrying charges were 18.0% of total governmental fund expenditures excluding capital outlay in fiscal 2018, which we consider elevated.

The current bond issue will refund existing debt for saving and will allow future debt to layer into future capacity. The district's debt outstanding includes $64.4 million that was privately placed with Wells Fargo through a note purchase agreement that has standard bank provisions and expires June 30, 2021. Voters approved a $454.4 million bond election in November 2017 with a 67% success rate, reflecting strong support from the community. The district has $371 million in authorized unissued debt that it will issue over the next three-to-four years.

Leander ISD historically relied heavily on the use of CABs. Unlike current interest bonds, which require periodic interest payments, interest for CABs accretes until the bonds mature. The district's total direct debt will be 46% CABs as of Aug. 31, 2019. Officials aim to reduce the CAB portfolio to 25% of direct debt outstanding by 2025, although the district may meet this goal sooner.

Pension and other postemployment benefit liabilities
Leander ISD provides pension benefits for all full-time employees through the statewide Texas Teachers' Retirement System (TRS), a cost-sharing, multiple-employer, defined-benefit, public employee retirement system. Under state law
governing TRS, the legislature determines the contribution rate and the district contributes to TRS at the contractually
determined rate.

The district paid its full required contribution of $6.5 million toward its pension obligations in fiscal 2018, or 1.4% of
total governmental expenditures. The district also contributed $1.8 million, or 0.4% of total governmental
expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2018. Combined pension and
OPEB carrying charges totaled 1.8% of total governmental fund expenditures in 2018.

**Outlook**

The stable outlook on the program rating reflects S&P Global Ratings' view of the Texas PSF's strength and liquidity.

The stable outlook on the underlying rating reflects our opinion of Leander ISD's extremely strong wealth per capita
and very strong income, which benefit from the district's access to and participation in the Austin MSA. The rating also
reflects our view that the district will continue to maintain very strong budget reserves, supported by strong budgetary
performance. At the same time, we expect the district's debt profile to remain a weakness in the credit profile. For
these reasons, we do not expect to change the rating over the two-year outlook horizon.

**Upside scenario**

If all the positive factors remain stable, we could raise the rating if the district makes substantial progress in
moderating its CAB exposure and reduces its debt burden to levels we consider commensurate with those of
higher-rated peers.

**Downside scenario**

Conversely, we could lower the rating if the district's additional debt issuances were to outpace the rate of tax base
growth, resulting in a significant increase in the district's already high debt burden.

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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.capitaliq.com. All ratings affected by this rating
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