

**CREDIT OPINION**

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# Aldine Independent School District, TX

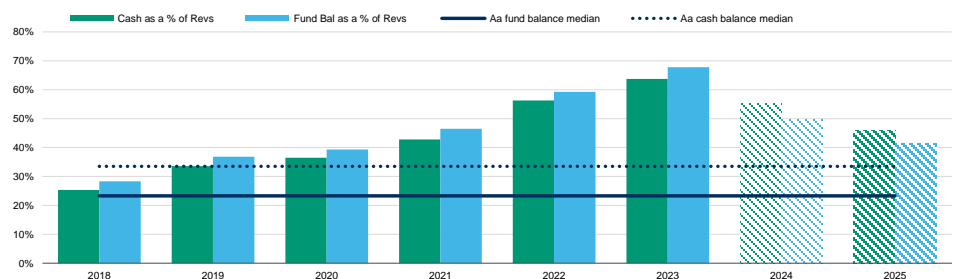
## Update to credit analysis

### Summary

[Aldine Independent School District, TX's](#) (Aa2 stable) credit profile is anchored by its substantial fund balance and strong liquidity, which will remain robust even after draws over the next two fiscal years. Unaudited results show that fiscal 2024 (June 30 year end) will reduce reserves to over 50% of revenue and the fiscal 2025 budget indicates another draw. Despite this, reserves are expected to stay above 43% of revenue, well above the Aa median (see Exhibit 1). The district is adjusting its operations due to enrollment changes, aiming for balance operations by fiscal 2026 or 2027. Given high current reserves, aligning revenue with costs should not be problematic for the credit profile, particularly if the district continues to outperform expectations as it has done in the past.

However, the district faces enrollment declines and low resident income and full value per capita ratios, typical of large urban districts. The district's leverage ratio is expected to rise but stay under 350% due to revenue growth.

Exhibit 1  
**Financial reserves and cash will decrease but remain well above Aa medians through fiscal 2025**  
Fiscal year ends June 30



FY 2024 numbers are unaudited and FY 2025 numbers are based on the adopted budget  
Cash levels are estimated for FY 2024 and 2025 at 90% of reserves  
Source: Moody's Ratings and Aldine ISD audited financial statements

### Credit strengths

- » Strong fiscal practices
- » History of voter support for ballot initiatives

### Credit challenges

- » High and rising leverage
- » Resident income and full value per capita are below similarly rated peers
- » Declining enrollment

## Rating outlook

The stable outlook reflects the district's conservative fiscal practices which will allow it to maintain a solid financial profile, while navigating challenges associated with enrollment loss; enrollment is a key driver in the state's funding formula. The outlook also reflects the demand for the economy, a contributing factor to its large and growing tax base, which will support revenue growth and allow the rising debt burden to remain manageable.

## Factors that could lead to an upgrade

- » Ability to manage enrollment loss in way that does not further impair its financial position and the ability to eliminate the gap and return to balanced operations
- » Reduced leverage to levels that are on the lower end of the typical range for Aa peers (generally 125% to 250%)

## Factors that could lead to a downgrade

- » Further decline in financial ratios beyond currently projected through fiscal year end 2025 coupled with no plan to address fiscal challenge
- » Increase in leverage that approaches 400% of revenue, the higher end of the A category

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Aldine Independent School District, TX

	2020	2021	2022	2023	Aa Medians
<b>Economy</b>					
Resident income	65.2%	64.8%	64.7%	N/A	117.7%
Full value (\$000)	\$22,072,214	\$24,591,404	\$24,367,353	\$27,141,257	\$4,116,112
Population	305,105	308,320	309,321	N/A	33,491
Full value per capita	\$72,343	\$79,759	\$78,777	N/A	\$118,409
Enrollment	67,259	63,302	61,633	60,074	4,140
Enrollment trend	-1.2%	-2.0%	-2.7%	-3.7%	-1.1%
<b>Financial performance</b>					
Operating revenue (\$000)	\$724,890	\$739,372	\$722,706	\$739,578	\$72,169
Available fund balance (\$000)	\$284,992	\$343,754	\$428,116	\$501,263	\$19,387
Net cash (\$000)	\$264,412	\$316,555	\$406,783	\$471,369	\$23,204
Available fund balance ratio	39.3%	46.5%	59.2%	67.8%	28.9%
Net cash ratio	36.5%	42.8%	56.3%	63.7%	33.5%
<b>Leverage</b>					
Debt (\$000)	\$1,153,879	\$1,124,336	\$1,097,488	\$1,054,318	\$52,993
ANPL (\$000)	\$801,738	\$800,259	\$785,070	\$703,373	\$126,556
OPEB (\$000)	\$226,967	\$183,247	\$168,797	\$125,485	\$9,318
Long-term liabilities ratio	301.1%	285.1%	283.8%	254.6%	339.9%
Implied debt service (\$000)	\$76,731	\$82,632	\$78,861	\$76,648	\$3,664
Pension tread water (\$000)	\$22,564	\$20,663	\$14,642	\$29,822	\$3,207
OPEB contributions (\$000)	\$4,086	\$4,031	\$4,915	\$5,255	\$333
Fixed-costs ratio	14.3%	14.5%	13.6%	15.1%	12.2%

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [K12 Median Report](#).

Sources: US Census Bureau, Aldine Independent School District, TX's financial statements and Moody's Ratings

## Profile

Aldine Independent School District is located in [Harris County](#) (Aaa stable) in southeastern [Texas](#) (Aaa stable), about 15 miles north of downtown [Houston](#) (Aa3 stable). The district has 82 facilities with a current enrollment of about 56,000.

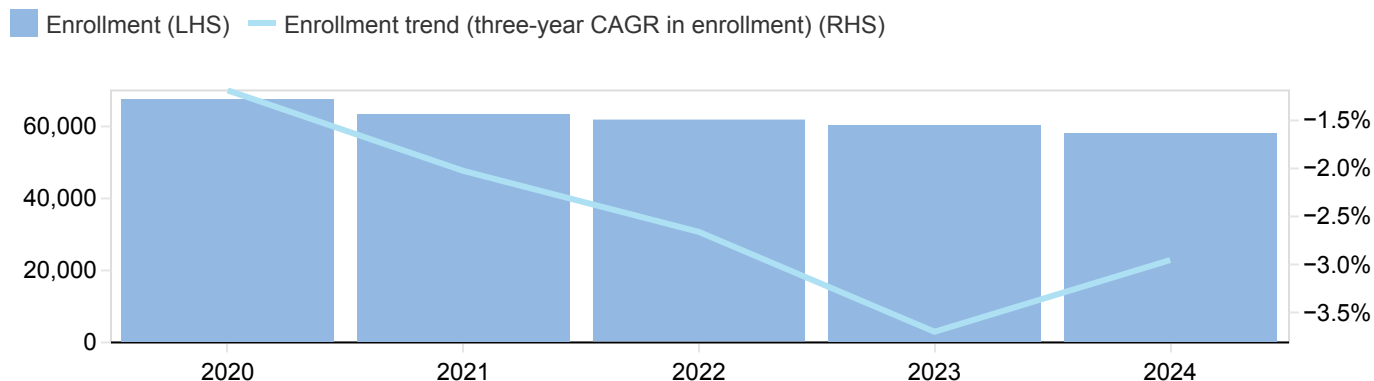
## Detailed credit considerations

### Economy: low resident income and full value per capita despite participation in large Houston economy, declining enrollment

The district's declining enrollment will continue to be a drag due to changing demographics even though the area's economy is strong. Sustained investments have driven up taxable values and will support full value per capita growth. In spite of the growth, the district population includes a high percentage of residents with income levels below the nation. Plus, the district's enrollment has been challenged by changing demographics with smaller incoming classes and the presence of charter schools in the area. These trends were exacerbated following the pandemic (see Exhibit 3). This factor is important because enrollment, when measured by weighted attendance, is a key driver in state funding. Thus far, district management has been effective at implementing financial controls which has been crucial to growing its reserves but additional measures will be necessary to rightsize draws projected through the end of fiscal 2025.

The district has embarked on various initiatives including student and household outreach to improve attendance which has yielded success; current attendance is estimated at 95.3%. Even though attendance trends are expected to improve, enrollment will remain challenged for the foreseeable future. As of fiscal 2025 (June 30 year end), enrollment is estimated at about 56,000.

Exhibit 3

**Enrollment losses mount even through fiscal 2024 albeit at a slower rate**

Source: Moody's Ratings

**Financial operations: cost cutting measures necessary to right size expected draws through fiscal 2025, reserves projected to remain strong**

The district's long-term financial outlook will depend on its ability to appropriately align its budget while dealing with declining enrollment. The approved budget for fiscal year 2025 includes a budget gap that, if realized, will decrease reserves to almost 46% of expected revenues for the year. This forecast follows an estimated draw of approximately \$80 million for fiscal year 2024, a level that was more favorable than the adopted draw for the year.

These numbers underscore the challenge posed by rising costs in the face of decreasing enrollment. The district has already initiated cost control measures, although officials do not anticipate achieving balanced operations before fiscal 2026, or possibly even 2027.

Given the currently substantial reserves, aligning expenditures with revenue with should not pose significant issues for the credit profile, especially if the district continues to exceed expectations as it has historically. At fiscal year end 2023, reserves exceeded 70% of revenue.

**Liquidity**

The district's liquidity is more than sufficient to support its operations without external support or internal fund borrowing, consistent with its history. Cash typically accounts for more than 90% of the district's reserves. Unaudited results for fiscal 2024 show the district's reserves reducing to about \$428.3 million (43% of fiscal 2023 revenue) with most of it in cash.

**Leverage: increasing leverage will be managed by likely growth in revenue**

The district's leverage will rise following voters approving \$1.8 billion in the November 2023 bond election. However, leverage ratios will remain affordable supported by a growing tax base coupled with an expected debt service tax rate increase during the debt issuance period.

At fiscal year end 2023, the long term liabilities ratio was almost 295% of revenue and included over \$1 billion in debt. Including the September sale, the ratio increases but to just shy of 300% of revenue. Post sale, the district will have about \$1.5 billion in authorized unissued debt. The district expects annual installments of its GOULT authorization until exhaustion in 2032. Given the pace of debt issuance and a steady increase in the debt service tax rate between 2027 and 2032, as well as likely tax base growth, the district's leverage metrics will likely remain high but manageable throughout the about eight years of active debt issuance.

Adjusted fixed costs including debt, pension and other post employment benefits (OPEB) which totaled 15.1% of revenue at close of fiscal 2023, will rise but should remain affordable supported by operating revenue growth.

**Legal security**

The GOULT bonds are payable from a direct and continuing annual ad valorem tax, levied on all taxable property without legal limitation as to rate or amount. The GOULT pledge is also secured by statute. Most of the district's bonds are also payable from the Texas Permanent School Fund's commitment to pay debt service if necessary.

**Debt structure**

The debt service schedule is descending over the life of the bonds with a final maturity scheduled for 2054.

**Debt-related derivatives**

All of the district's debt is fixed rate and the district is not party to any derivative agreements.

**Pensions and OPEB**

The district participates in the Texas Teachers Retirement System (TRS) pension plan, where the State of Texas makes most of the employer pension contributions on behalf of districts annually. Given this support, budgetary pressure associated with the plan is likely to remain minimal in the near term. For fiscal 2023, the district reported a GASB net pension liability of \$274.5 million, based on a discount rate of 7%. Comparatively, the district's Moody's adjusted net pension liability (ANPL), based on a 4.48% discount rate from the FTSE pension liability index, was \$703.4 million. The ANPL is equal to a modest 0.95 times annual operating revenue in fiscal 2023, including the general and debt service funds.

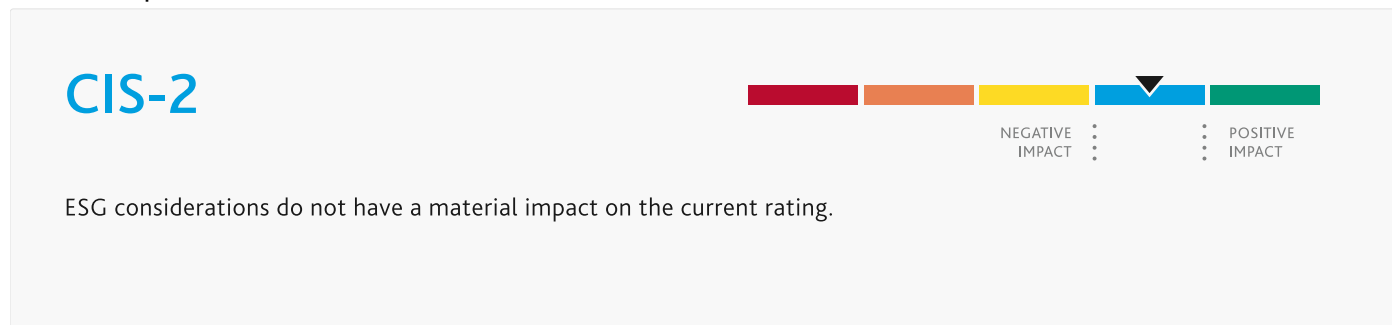
The district funds other post-employment benefits (OPEB) on a pay-as-you-go basis. In fiscal 2023, OPEB contributions were a modest \$5.3 million and are not expect to be a drag on credit quality. Moody's adjusted net OPEB liability, where we apply a standardized discount rate to compute present value of accrued benefits, is \$125.5 million or a modest 17% of operating revenue.

**ESG considerations**

**Aldine Independent School District, TX's ESG credit impact score is CIS-2**

Exhibit 4

**ESG credit impact score**

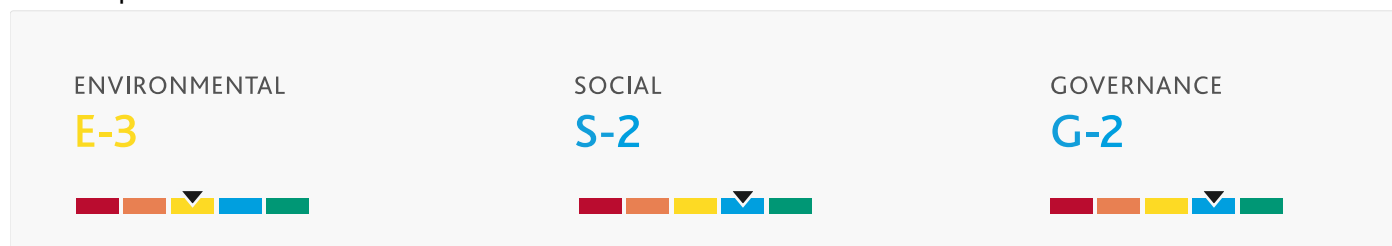


Source: Moody's Ratings

Aldine ISD's **CIS-2** indicates that ESG considerations are not material to the rating. The district has elevated exposure to environmental risks and relatively low exposure to social and governance risks.

Exhibit 5

**ESG issuer profile scores**



Source: Moody's Ratings

### Environmental

The district's environmental issuer profile score is **E-3**. The district's location near the Texas Gulf Coast creates elevated exposure to physical climate risks, especially hurricanes. Exposure to carbon transition risks is inherent in the area's role as a global energy leader. Sustained demand for green alternatives will weigh on the area but the effects will play out over a much longer period. Exposure to other environmental risks such as water management, natural capital, and waste and pollution is low.

### Social

The district's social issuer profile score is **S-2**. The district has a growing population with a higher percentage of school-aged children relative to the median of rated districts. The graduation rate is below the national median and educational attainment of the district's residents is also below median. The percent of school-aged children in poverty in the district is notably higher than the national median. The district (like most throughout the country) faces a consistent challenge of attracting and maintaining instructional and non-instructional personnel. Residents have access to basic services and relatively affordable housing.

### Governance

The district's governance issuer profile score is **G-2**. The district benefits from strong institutional structure shared by all Texas school districts as well as strong policy credibility and effectiveness. The district's capture rate (the percentage of school-aged children within the district's boundaries who attend its schools) is strong. The district has good budget management, and transparency and disclosure is similar to peers with the timely adoption of budgets and posting of audited financial statements.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare school district credits.

Exhibit 6

### Aldine Independent School District, TX

	Measure	Weight	Score
<b>Economy</b>			
Resident Income (MHI Adjusted for RPP / US MHI)	64.7%	10.0%	Ba
Full value per capita (full valuation of the tax base / population)	96,131	10.0%	A
Enrollment trend (three-year CAGR in enrollment)	-3.0%	10.0%	Baa
<b>Financial performance</b>			
Available fund balance ratio (available fund balance / operating revenue)	67.8%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	63.7%	10.0%	Aaa
<b>Institutional framework</b>			
Institutional Framework	Aa	10.0%	Aa
<b>Leverage</b>			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	294.7%	20.0%	A
Fixed-costs ratio (adjusted fixed costs / operating revenue)	15.1%	10.0%	Aa
<b>Notching factors</b>			
No notchings applied			
Scorecard-Indicated Outcome			Aa3
<b>Assigned Rating</b>			<b>Aa2</b>

The complete list of outstanding ratings assigned to the Aldine Independent School District, TX is available on their [issuer page](#). Details on the current ESG scores assigned to the Aldine Independent School District, TX are available on their [ESGView page](#).

Sources: US Census Bureau, Aldine Independent School District, TX's financial statements and Moody's Ratings

## Appendix

Exhibit 7

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau) RPP: US Bureau of Economic Analysis
Full value (\$000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Ratings
<b>Financial performance</b>		
Operating revenue (\$000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance (\$000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash (\$000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
<b>Leverage</b>		
Debt (\$000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL (\$000)	District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
OPEB (\$000)	District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Ratings
Implied debt service (\$000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water (\$000)	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contributions (\$000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Ratings



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