Austin Independent School District, TX

Issuer: Austin Independent School District, TX		
Assigned	**Rating**	**Outlook**
Unlimited Tax School Building Bonds, Series 2025 (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 ratings for the Austin Independent School District's (the "District") Unlimited Tax Bonds (the "Bonds") reflects the inherent strength of the District's unlimited tax ad valorem pledge that is enhanced by a large, diversified, and growing tax base; strong financial management policies, practices, and planning that have sustained consistently large reserves and sound liquidity; and manageable level of debt and continuing obligations. These strengths, in KBRA's opinion, provide strong footing for the District to manage challenges including a long-term trend of gradual enrollment loss, an evolving statutory funding environment that limits flexibility to increase operating resources, and significant capital needs associated with aging school facilities which average 45 years in age.

Proceeds from the sale of the currently offered bonds will be used to: design, construct, acquire, rehabilitate, renovate, expand, improve, and equip school buildings, and purchase sites therefore and purchase new school buses; pay capitalized interest, and pay the costs of issuance. The issuance was authorized by the electorate pursuant to a November 2022 bond election and subsequent bond order adopted by the District's Board of Trustees. KBRA understands that the District has received preliminary approval from the Texas Education Agency for the payment of principal and interest on the bonds to be guaranteed by the Permanent School Fund ("PSF") Guarantee Program, which will automatically become effective upon approval by the Attorney General of Texas.

The Bonds are obligations of the District payable from a direct and continuing pledge of ad valorem taxes levied on all taxable property within the District, without limitation as to rate or amount. A portion of the District's outstanding bonds are guaranteed by the State's PSF Guarantee Program for the full and timely payment of principal and interest. KBRA's rating for these and all other series, including those with and without the PSF guarantee, are based solely on the underlying credit standing of the District, without considering support afforded by the PSF guarantee program.

The District is the eighth largest school district in the State of Texas encompassing an area in and around the City of Austin. District average daily attendance (ADA) totals 63,740 students as of FY 2024 (FYE June 30) and has declined at a 2.0% compound annual rate over the last decade, which the District attributes to factors including lower birth rates, affordability pressure, and demographic changes resulting in fewer families with school aged children living within the District.

The City of Austin is the primary economic driver in the Austin-Round Rock-San Marcos metropolitan statistical area (Austin MSA), which is the 26th largest urbanized area in the Nation and the fastest growing among the 30 largest MSAs since 2010. The District's tax base is estimated at $179.6 billion in taxable assessed value for tax year 2025 and has increased at a rapid 9.0% compound annual growth rate (CAGR) over the last decade. Taxable assessed value ("TAV") growth slowed in tax year 2024 and is projected to decline by 4.6% YoY in tax year 2025 reflecting a leveling off in home values since the beginning of 2023 after a period of sharp growth in the years following the pandemic coupled with an increase in the state mandated homestead exemption pursuant to Senate Bill 4 ("SB4"). Given the historical rapid appreciation of the tax base, property tax relief is a priority across the State of Texas. Texas Senate Bill 2 of 2023 reduced (through tax rate compression) the allowable level of the M&O tax rate and increased the homestead exemption to $100,000 from $40,000, among other changes. SB4 of 2025 will further increase the homestead exemption, subject to voter approval in November 2025, to $140,000 effective tax year 2025. Importantly, all property tax revenues forgone due to the increased homestead exemption are fully backfilled by a permanent increase in the State share of school funding.

The District is considered "property-wealthy" under the State's school financing system based on its comparatively high ratio of taxable assessed value to average daily attendance. Pursuant to Chapter 49 of Texas Education Code, the District is consequently required to redistribute a portion of its local maintenance and operations (M&O) tax revenue each year to less affluent districts. Pursuant to this system, the District is deemed an "excess local revenue" district and is required to exercise a wealth equalization option known as recapture, effectively reducing its property wealth per student ratio by purchasing attendance credits. The District purchased attendance credits totaling $901 million in FY 2023, $665 million in FY 2024, and budgeted at $821 million in FY 2025, though current estimates as of May 2025 are slightly lower at $782 million. The District's budget for FY 2026 estimates $715 in purchased attendance credits.

The District has achieved generally well-balanced operations with the unassigned general fund balance at or above 25.1% of operating expenditures (excluding recapture payments) in each of the last five years through FY 2024. In FY 2024 general fund revenues declined by $237 million or 13.6% YoY to $1.51 billion. The decline primarily reflects a $216 million (13.3%) decline in local M&O property tax receipts reflecting the implementation of the aforementioned SB2. General fund expenditures declined $126 million (7.4%) to $1.57 billion, primarily reflecting a $236 million (26.2%) decline in purchased attendance credits to $665 million. Notably, the $236 million reduction in purchased attendance credits more than offset the $216 million reduction in O&M property tax receipts, evidencing no overall decline in funding that year from the previously discussed statutory school funding changes. Total general fund balance declined 18.4% YoY to $261 million. The unassigned fund balance at FYE 2024 of $242.6 million was equivalent to a still strong 26.9% of general fund expenditures (excluding recapture payments), a level well in excess of the District's policy to maintain an unassigned fund balance equivalent to at least 20% of expenditures (excluding recapture payments).

In FY 2025 the District budgeted to draw down the general fund balance by $78.2 million, even after accounting for the success of a voter approved tax rate election that allowed the District to increase the M&O levy to the maximum statutory rate. The increased levy is expected to generate approximately $40 million in additional revenue, net of recapture payments. Management took steps to reduce the FY 2025 drawdown through targeted reductions, including the elimination of 60 position allocations. However, due to final certified property values recording growth well below the Travis Central Appraisal District's initial projections of 6%, the projected deficit as of May 2025 is estimated at $93 million.

The FY 2026 budget estimates a smaller draw down in general fund balance of $19.7 million reflecting strategic reductions (the largest being the restructuring of the District's central office for estimated savings of $10 million) coupled with a mixture of one-time revenues (the sale of two properties for estimated revenues of $45 million) and recurring additional State funding through House Bill 2 (HB2). Signed into law on June 12, 2025, HB2 allocates $8.5 billion to enhance the State's educational system, including $5,000 salary increases for teachers in large districts such as Austin ISD and modestly increases the State per pupil basic allotment by $55 to $6,215 from $6,160, where it has been since 2019. The District estimates that HB2 will result in a net increase of $9 million in additional State revenue.

If the currently estimated deficits for FY 2025 and FY 2026 were absorbed entirely by unassigned reserves, KBRA estimates that such reserves would decline by 46.5% YoY to $129.9 million. The District estimates that such ending unassigned fund balance would equate approximately 15.2% of expenditures (excluding budgeted recapture payments), which is below the 20% policy level. The District's fund balance policy includes a provision allowing for a reduced balance of at least 15% for a period of three years contingent on a plan for restoring the balance to 20% within the three year period. The provision is set to expire at FYE 2027, and the District has expressed its commitment to taking the actions necessary to balance the budget, including examining staffing levels and the consolidation of underutilized facilities, in order to return the fund balance to the 20% level in FY 2028.

District leverage is increasing as it works to modernize facilities, with its campuses currently averaging 45 years in age. The District's pro forma debt outstanding inclusive of the Series 2025 Bonds (~$243.39 million) is estimated at $2.58 billion in general obligation bonds, compared to a less than half that amount five years prior. Following the current issuance, the District will have $804 million in remaining authorized but unissued unlimited tax bonding capacity remaining from the last November 2022 bond election. Pro forma direct and overlapping debt for FY 2025 is moderate at $4,739[1] per capita and a more favorable 2.86% of taxable assessed value. Debt service requirements are descending, and the District is not party to any interest rate swaps or derivatives.

The District's interest and sinking fund ("I&S") tax rate is $0.1230 per $100 of taxable assessed value for FY 2025, where it is projected to remain in FY 2026. Although the I&S rate is unlimited as to rate or amount to service unlimited tax debt, the State imposes a $0.500 (per $100 of taxable assessed value) cap beyond which it will not approve new issuance. At less than a quarter of this limit, the District has significant additional capacity for future borrowing.

The Stable Outlook reflects KBRA's expectation that management will continue to conservatively manage the District's finances, that the tax base will continue to grow, and that the District's overall net debt profile will remain moderate and well-managed as the District addresses its capital needs.

[1] Source: POS. Utilizes estimated City population of 1,083,948. 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.

Key Credit Considerations

The rating actions reflect the following key credit considerations:

Credit Positives
- Large, diverse, and growing tax base provides reliable source of payment for the unlimited tax bonds.
- Strong financial management, policies, and procedures have historically sustained large unassigned reserves and strong liquidity.

Credit Challenges
- Declining enrollment and statutory changes to the State's school funding system limit prospects for growth in operating resources and have contributed to recent budget deficits.

Rating Sensitivities

▪ Not applicable at AAA rating level.	**+**
▪ Failure to gradually restore structural balance coupled with depletion of reserves to a level inconsistent with the rating level. ▪ Continued reliance on non-recurring revenue sources to address budgetary shortfalls. ▪ While not expected a trend of decline in the ad valorem tax base may negatively impact the rating.	**-**

Key Ratios

Overall Direct and Indirect Debt Per Capita (Pro Forma 2025)[1]	$4,739
Overall Debt as a % of Taxable Assessed Value (Pro Forma 2025)	2.86%
Debt Service, Pension, and OPEB Contributions as a % of Governmental Expenditures (FY 2024)	10.8%
Net Pension Liability as a % of Taxable Assessed Value	0.1%
General Fund Unassigned Fund Balance as a % of Expenditures, Excl Recapture (FYE 2024)	26.9%
General Fund Unassigned Fund Balance as a % of Expenditures, Incl Recapture (FYE 2024)	15.5%
General Fund Liquidity (FYE 2024)	218 DCOH
Average Daily Attendance (FY 2024)	63,740
10-Yr CAGR	-2.0%
Per Capita Income as a % of State (CY 2023)	168%
Taxable Assessed Value (2025)	$179.6 billion
CAGR 2015 to 2025	9.0%

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

A detailed discussion of each Rating Determinant, the Bankruptcy Risk Assessment, and ESG Management can be found in prior KBRA reports, the most recent of which is dated March 17, 2025.