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CREDIT OPINION
16 February 2016

New Issue

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Seguin Independent School District, TX

New Issue - Moody's assigns Aa3 UND & Aaa ENH to Seguin ISD's, TX $35M GOULT Refunding Bonds, Series 2016

Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 to Seguin Independent School District's (ISD), TX $35 million Series 2016 GOULT refunding bonds and affirmed the Aa3 rating on $95 million in outstanding Moody's rated parity debt. Moody's has also assigned a Aaa enhanced rating to the Series 2016 bonds.

The Aa3 underlying rating reflects the district's sizeable tax base, average socioeconomic profile, and healthy reserves maintained through strong financial performance despite an anticipated draw in 2016 due to a transfer for capital. The rating also incorporates the elevated debt burden and stagnant enrollment.

The Aaa enhanced rating is based on the rating of the Texas Permanent School Fund and the structure and legal protections of the transaction which provide for timely payment by the PSF if necessary. Moody's currently rates the Permanent School Fund Aaa. For additional information on the PSF program, please see Moody's Rating Update Report on the Texas Permanent School Fund dated June 23, 2015.

Credit Strengths

» Sizeable tax base experiencing growth

» Strong financial performance with healthy reserves even following transfer for capital projects

Credit Challenges

» Elevated debt burden

» Stagnant enrollment

Rating Outlook

Outlooks are not usually assigned to local governments with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» Substantial tax base expansion

» Decline in debt burden

» Trend of operating surpluses returning reserves to historical levels

Factors that Could Lead to a Downgrade

» Further deterioration of reserve levels

» Additional debt absent corresponding tax base growth

Key Indicators

Exhibit 1

Seguin Independent School District, TX	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 2,389,092	$ 2,664,512	$ 2,692,314	$ 2,522,367	$ 2,844,181
Full Value Per Capita	$ 54,048	$ 60,289	$ 59,543	$ 55,785	$ 62,902
Median Family Income (% of US Median)	N/A	87.6%	87.6%	87.6%	87.6%
Finances					
Operating Revenue ($000)	$ 58,642	$ 57,509	$ 59,215	$ 62,169	$ 64,614
Fund Balance as a % of Revenues	39.7%	45.1%	59.7%	59.4%	61.1%
Cash Balance as a % of Revenues	43.0%	64.2%	68.6%	66.6%	62.3%
Debt/Pensions					
Net Direct Debt ($000)	$ 76,670	$ 74,526	$ 72,235	$ 114,294	$ 112,129
Net Direct Debt / Operating Revenues (x)	1.3x	1.3x	1.2x	1.8x	1.7x
Net Direct Debt / Full Value (%)	3.2%	2.8%	2.7%	4.5%	3.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.5x	0.5x	0.5x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.1%	1.1%	1.2%	1.1%

Source: Moody's Investors Service

Recent Developments

Since the August 2015 report, the district's 2015 audit has been finalized with results consistent with prior expectations. Additionally, the district provided an update on the high school construction and noted that $20 million was transferred from the General Fund to the Capital Projects Fund in the current year (fiscal 2016) to fully fund the project and provide contingency funds. These developments are incorporated in the detailed rating considerations.

Detailed Rating Considerations

Economy and Tax Base: Sizeable Tax Base Expecting Growth

The district's tax base will continue to see growth given ongoing development and proximity to San Antonio (Aaa stable outlook GO rating). Located about 35 miles east of San Antonio, the district encompasses 370 square miles and has a sizeable tax base of $2.98 billion as of fiscal year 2016. These represent the assessed values for debt service. The assessed values for maintenance and operations (M&O) are about $130 million lower due to a Chapter 313 agreement with Caterpillar Inc. (A2/stable Issuer rating) that caps Caterpillar's value at $80 million for M&O purposes through 2019. Concentration is moderate as top ten taxpayers, though representing a diverse industrial mix, comprise 13.5% of the base. District officials report ongoing development includes several new subdivisions, a tractor supply store, water bottle manufacturer, and cookie manufacturer. Given the future and ongoing development within the district, we expect that tax base will remain sizeable and stable.

Enrollment trends have been relatively stagnant with modest declines in recent years. Since 2010, enrollment has declined 1.8% to 7,409 for fiscal year 2015 with modest fluctuations annually. Officials anticipate stagnant enrollment moving forward with the potential for growth in the future given ongoing development. Wealth indicators in the district are below average as median family income is 87.6% of the US as of 2012. Lower wealth indicators are somewhat offset by a low cost of living. Even with growth in the labor force, unemployment in the county fell to a low 3.6% as of November 2015 compared to 4.5% for the state and 4.8% for the nation.

Financial Operations and Reserves: Strong Financial Performance Maintains Solid Reserves

The district will maintain healthy reserve levels given historically strong financial performance and conservative practices. Through fiscal year 2015, the district has realized six consecutive years of surpluses driven by strong performance relative to conservative budgets. At fiscal year-end 2015, the district's available General Fund balance was $32 million, a healthy 56.8% of revenues. Including the debt service fund balance, the available operating funds balance was $39.5 million or 61.1% of operating revenues. The fiscal year 2016 budget is balanced with a modest surplus in the General Fund and a planned modest draw in the debt service fund. Year to date, officials report revenues and expenditures are consistent with the budget. However, the district conservatively revised the property tax budget down $1 million due to the increased homestead exemption which could drive a $1 million draw.

The district previously reported that a maximum of $15 million in project costs for the new high school, which was not covered by bond proceeds, could require the use of reserves. District officials provided an update that $20 million was transferred from the General Fund to the Capital Projects Fund in the current year which included a $4.5 million contingency. The district anticipates being able to transfer the $4.5 million back to the General Fund in fall 2017 (fiscal year 2018) once the high school has been completed. Net of the draw, the fund balance will still remain healthy and consistent with peers in the rating category. Given the historically strong performance of the district relative to conservative budgets, the reserve levels should remain solid and near the district's 25% informal target. Further deterioration of reserves beyond the draws for capital in 2016 could drive reserves to levels inconsistent with the rating category and place negative pressure on the rating.

LIQUIDITY

Parallel to strong operating results, liquidity levels are strong. The unrestricted cash and investments for the General Fund totaled $32.7 million for fiscal year 2015 or 57.8% of revenues. The operating funds cash position was $40.2 million or 62.3% of revenues.

Debt and Pensions: Elevated But Manageable Debt Burden

The district's debt burden is elevated but should remain manageable given ongoing tax base growth and limited future issuance plans. Following the current sale, the district will have $147.7 million in outstanding GOULT debt, of which $130.1 million is Moody's rated. The district does not have any authorized but unissued debt, and the district does not have any plans to return to voters. The capacity of district facilities is sufficient for enrollment expectations, and there are no significant capital needs.

DEBT STRUCTURE

The debt service schedule increases to a maximum of $12.1 million in 2023 and then is descending with final maturity in 2045. Payout is slow with only 39.9% of principal amortized within 10 years.

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 cost-sharing defined benefit pension plan and has a minimal pension liability. The State of Texas (Aaa/stable) makes the majority of the district's employer pension contributions on behalf of the district annually. Moody's adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $34.6 million as of 2015. This liability is equal to a modest 0.54 times annual operating revenues which include the General Fund and Debt Service Fund. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's report contribution information, or the reported liability information of the statewide cost-sharing plans, but to improve comparability with other rated entities.

Management and Governance

Texas school districts have an institutional framework score of "Aa," or strong. Revenues, which are highly predictable, are determined by the state funding formula that takes into account local taxes and state aid. School districts maintain moderate revenue-raising flexibility. Although property tax rates (typically $10.40) are under the state-mandated cap of $11.70 per $1,000 of assessed value, districts are dependent on enrollment growth to drive additional revenue. Expenditures, which primarily consist of personnel and facility operational costs, are highly predictable. Districts have a moderate degree of flexibility to make cuts given the lack of unions within the state.

The district is governed by a seven member Board of Trustees. Board members serve staggered three year terms. The district demonstrates strong management with conservative budgeting practices and multiyear surpluses as actual results outperform budgeted expectations. The district's chief financial officer retired in December 2015, and the district is currently searching for a replacement. In the interim, the district's long time controller as well as a consultant are managing the district's finances.

Legal Security

The bonds are secured by a continuing annual ad valorem tax levied by the district without limitation as to rate or amount on all taxable property within the district.

Use of Proceeds

The proceeds will be use to refund certain maturities of the Series 2008 bonds for savings without extension of maturity.

Obligor Profile

The district covers approximately 370 square miles in Guadalupe County about 35 miles east of San Antonio. Enrollment in the district hovers just under 7,500 students.

Methodology

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the enhanced rating was Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts published in December 2015. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

SEGUIN INDEPENDENT SCHOOL DISTRICT, TX

Issue	Rating
Unlimited Tax Refunding Bonds, Series 2016	Aa3
Rating Type	Underlying LT
Sale Amount	$34,955,000
Expected Sale Date	02/17/2016
Rating Description	General Obligation
Unlimited Tax Refunding Bonds, Series 2016	Aaa
Rating Type	Enhanced LT
Sale Amount	$34,955,000
Expected Sale Date	02/17/2016
Rating Description	General Obligation

Source: Moody's Investors Service

REPORT NUMBER 1015856

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