

ISSUER COMMENT

1 March 2018

RATING

General Obligation (or GO Related) ¹

Aa3 No Outlook

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Seguin Independent School District, TX

Annual Comment on Seguin ISD

Issuer Profile

Seguin Independent School District is located in Guadalupe County in south central Texas, approximately 35 miles east of San Antonio. Guadalupe County has a population of 143,460 and a moderate population density of 202 people per square mile. The county's median family income is \$72,384 (1st quartile) and the December 2017 unemployment rate was 2.9% (1st quartile) ². The largest industry sectors that drive the local economy are manufacturing, local government, and retail trade.

Credit Overview

The credit position for Seguin ISD is very healthy, and its Aa3 rating matches the median rating of Aa3 for US school districts. The notable credit factors include a robust financial position, a sizable tax base, a solid socioeconomic profile, an affordable pension liability, but a very heavy debt burden.

Finances: The district has a robust financial position, which is a strength in relation to the assigned rating of Aa3. The cash balance as a percent of operating revenues (46.8%) is far stronger than the US median. That said, this metric suffered a significant decrease from 2013 to 2017. Additionally, Seguin ISD's fund balance as a percent of operating revenues (37%) is far superior to other Moody's-rated school districts nationwide.

Economy and Tax Base: The economy and tax base of the district are solid, but the factor is slightly unfavorable when compared to its Aa3 rating. The full value (\$3.1 billion) is slightly above the US median, and increased significantly from 2013 to 2017. Additionally, the median family income equals just 89.8% of the US level. Lastly, the full value per capita (\$61,494) is slightly below the US median.

Debt and Pensions: The debt and pension liabilities of the district are moderate overall. Yet, they are slightly weak in comparison to the assigned rating of Aa3. Seguin ISD's Moody's-adjusted net pension liability to operating revenues (0.68x) favorably is materially below the US median, and did not change from 2013 to 2017. In addition, the net direct debt to full value (4.9%) is significantly higher than the US median. The district benefits from the state's debt service assistance programs, which covered roughly 2.4% of the fiscal 2017 debt service payment. Net of the state-aid support, the debt burden would decrease to 4.7%.

Management and Governance: Texas school districts have an Institutional Framework score ³ of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property taxes, one of the sector's major revenue sources is subject to a cap of \$10.40 per 1,000 of assessed value, which can be overridden at the local level to \$11.70 (with voter approval). The voter

approved levy override provides for additional revenue-raising flexibility. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Texas is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Texas School Districts

Texas school districts are benefiting from strong population trends and private-sector investment, driving growth in taxable values. The majority of districts have averaged over 5% growth in assessed valuation annually in the past five years. Over that period, enrollment growth has averaged 2% annually. The energy downturn has had an uneven impact. State aid is expected to increase by 6.8% in the 2016-17 biennium. On May 13, 2016, the State Supreme Court ruled that the funding formula is constitutional, with the levels of funding to be determined in the biennial budget process. On-behalf-payments made by the state into the teacher retirement system will keep district pension burdens low. Reserves are a sector strength. Charters have a minimal presence, posing little threat to district finances.

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

EXHIBIT 1

Key Indicators 4.5 Seguin ISD

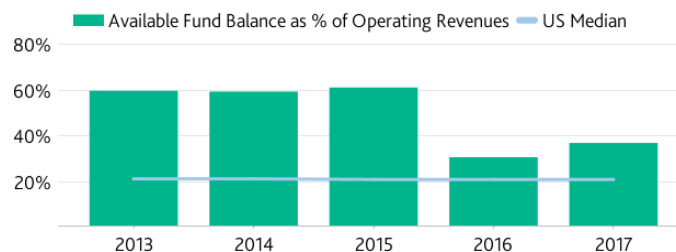
	2013	2014	2015	2016	2017	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$2,692M	\$2,522M	\$2,844M	\$2,991M	\$3,147M	\$1,870M	Improved
Full Value Per Capita	\$59,543	\$55,742	\$63,884	\$61,625	\$61,494	\$83,193	Stable
Median Family Income (% of US Median)	87%	89%	90%	90%	90%	103%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	59.7%	59.4%	61.1%	30.7%	37.0%	21.0%	Weakened
Net Cash Balance as % of Operating Revenues	68.6%	66.6%	62.3%	29.0%	46.8%	25.7%	Weakened
Debt / Pensions							
Net Direct Debt / Full Value	2.7%	4.5%	3.9%	5.0%	4.9%	1.5%	Weakened
Net Direct Debt / Operating Revenues	1.22x	1.84x	1.74x	2.15x	1.96x	0.72x	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.1%	1.2%	1.1%	1.3%	1.7%	3.0%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.50x	0.50x	0.47x	0.58x	0.68x	1.54x	Stable

	2013	2014	2015	2016	2017	US Median
Debt and Financial Data						
Population	45,216	45,251	44,521	48,548	51,191	N/A
Available Fund Balance (\$000s)	\$35,356	\$36,904	\$39,509	\$21,163	\$28,797	\$8,051
Net Cash Balance (\$000s)	\$40,635	\$41,382	\$40,229	\$19,951	\$36,437	\$9,817
Operating Revenues (\$000s)	\$59,215	\$62,169	\$64,614	\$68,893	\$77,919	\$38,823
Net Direct Debt (\$000s)	\$72,235	\$114,294	\$112,129	\$148,270	\$152,762	\$26,674
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$29,532	\$31,095	\$30,414	\$39,926	\$52,620	\$54,746

Source: Moody's Investors Service

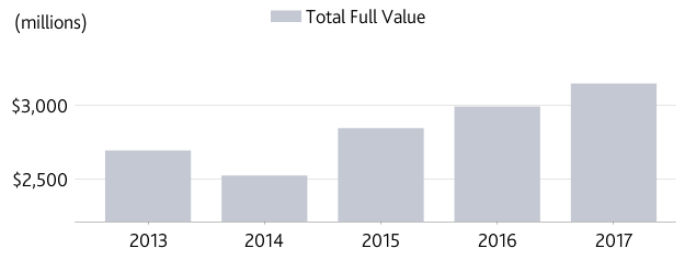
EXHIBIT 2

Available fund balance as a percent of operating revenues decreased from 2013 to 2017



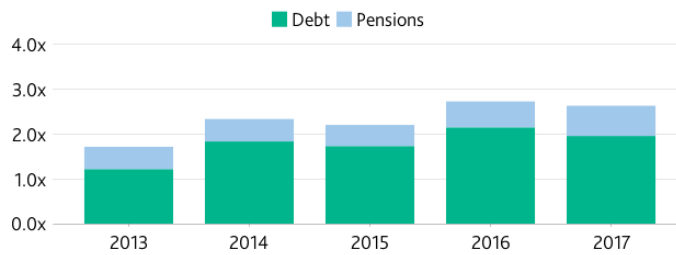
Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

Full value of the property tax base increased from 2013 to 2017

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2013 to 2017

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians - Tax Base Growth Reinforces Sector Stability as Pension Troubles Remain \(March 2017\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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