

ISSUER COMMENT

18 February 2020

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. The county has a population of 155,137 and a moderate population density of 218 people per square mile. The county's median family income is \$79,520 (1st quartile) and the December 2019 unemployment rate was 2.6% (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 strong. Its Aa3 rating is level with the US school districts median of Aa3. The notable credit factors include a robust financial position, a sizable tax base, a fairly healthy wealth and income profile, a mid-ranged pension liability, and an elevated debt burden.

Finances: The district has a robust financial position, which is favorable when compared to the assigned rating of Aa3. Seguin ISD'S fund balance as a percent of operating revenues (54.1%) is far stronger than the US median. However, this metric fell from 2015 to 2019. Moreover, the cash balance as a percent of operating revenues (53.6%) is far superior to other Moody's-rated school districts nationwide.

Economy and Tax Base: The economy and tax base of Seguin ISD are satisfactory, yet this factor is slightly weak with respect to its Aa3 rating. The total full value (\$3.6 billion) is above the US median, and increased dramatically from 2015 to 2019. Also, the median family income equals just 87.6% of the US level. Lastly, the full value per capita (\$66,583) is slightly below other Moody's-rated school districts nationwide.

Debt and Pensions: The debt and pension liabilities of Seguin ISD are somewhat elevated overall in relation to the assigned rating of Aa3. The Moody's-adjusted net pension liability to operating revenues (0.87x) is favorably under the US median. On the other hand, this ratio grew modestly between 2015 and 2019. Additionally, the net direct debt to full value (3.9%) far surpasses the US median. Texas School Districts receive substantial pension cost support from the state. Without this cost support, most districts' Moody's-adjusted net pension liabilities would roughly triple.

Management and Governance: Texas School Districts have an institutional framework score ³ of "Aa", which is strong. Property taxes, one of the sector's major revenue sources is subject to a levy cap set by state statute, which can be overridden with voter approval by a limited amount. Property tax revenue growth is capped at 2.5% annually, but 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 less than 25% of expenditures and are primarily debt service expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Texas School Districts

Texas school districts benefit from strong population trends and private-sector investment, driving economic growth and increasing taxable values. State-aid funding levels are generally increasing for the fiscal 2020 and 2021 biennium. Reserve levels are a sector strength. Debt levels are high due to capital spending for student enrollment growth, but on-behalf-payments made by the state into the teacher retirement system will keep district pension burdens manageable. Charters have a minimal presence, posing little threat to district finances. Texas has demonstrated that its cost support for local pensions may change in the future. For example, the state previously reduced its pension cost support for Community College Districts, capping its own contributions at 50% of all employer contributions.

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

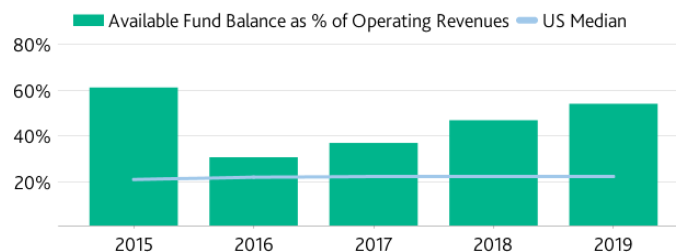
	2015	2016	2017	2018	2019	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$2,844M	\$2,991M	\$3,147M	\$3,378M	\$3,593M	\$1,919M	Improved
Full Value Per Capita	\$63,884	\$69,201	\$71,308	\$64,174	\$66,583	\$87,328	Stable
Median Family Income (% of US Median)	90%	89%	88%	88%	88%	101%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	61.1%	30.7%	37.0%	46.9%	54.1%	22.3%	Weakened
Net Cash Balance as % of Operating Revenues	62.3%	29.0%	46.8%	48.9%	53.6%	27.2%	Weakened
Debt / Pensions							
Net Direct Debt / Full Value	3.9%	5.0%	4.9%	4.3%	3.9%	1.6%	Stable
Net Direct Debt / Operating Revenues	1.74x	2.15x	1.96x	1.89x	1.83x	0.73x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.1%	1.3%	1.7%	1.9%	1.8%	3.3%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.47x	0.58x	0.68x	0.81x	0.87x	1.48x	Stable

	2015	2016	2017	2018	2019	US Median
Debt and Financial Data						
Population	44,521	43,233	44,146	52,639	53,970	N/A
Available Fund Balance (\$000s)	\$39,509	\$21,163	\$28,797	\$36,424	\$41,359	\$9,391
Net Cash Balance (\$000s)	\$40,229	\$19,951	\$36,437	\$37,987	\$41,026	\$11,164
Operating Revenues (\$000s)	\$64,614	\$68,893	\$77,919	\$77,720	\$76,518	\$42,583
Net Direct Debt (\$000s)	\$112,129	\$148,270	\$152,762	\$146,581	\$139,908	\$29,872
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$30,414	\$39,926	\$52,620	\$63,088	\$66,421	\$62,410

Source: Moody's Investors Service

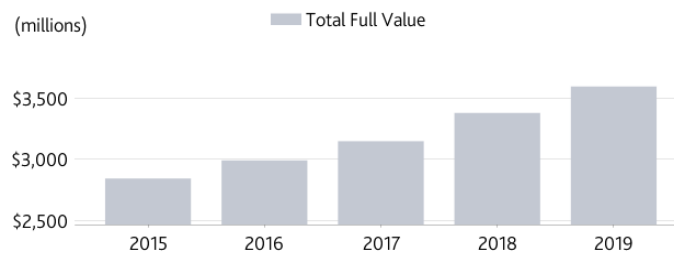
EXHIBIT 2

Available fund balance as a percent of operating revenues decreased from 2015 to 2019



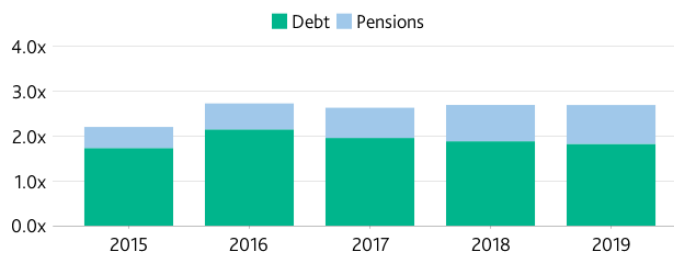
Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

Full value of the property tax base increased from 2015 to 2019

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

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues was stable from 2015 to 2019

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

Endnotes

- 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.
 - 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.
- 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.
 - 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.
 - The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.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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