MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A1 underlying/Aaa enhanced to Clint ISD, TX's $16.4M GO bonds

Global Credit Research - 15 Oct 2015

Affirms A1 on $125M rated GO debt; Aaa enhanced reflects TX PSF guarantee

CLINT INDEPENDENT SCHOOL DISTRICT, TX
Public K-12 School Districts
TX

Moody's Rating

ISSUE	UNDERLYING RATING	RATING
Unlimited Tax Refunding Bonds, Series 2015A	A1	Aaa
Sale Amount $16,365,000		
Expected Sale Date 10/22/15		
Rating Description General Obligation		

Moody's Outlook NOO

NEW YORK, October 15, 2015 --Moody's Investors Service has assigned an A1 underlying rating to Clint Independent School District, TX's $16.4 million Unlimited Tax Refunding Bonds, Series 2015A. Concurrently, we have affirmed the A1 rating on the district's $125.2 million of outstanding general obligation unlimited tax ("GOULT" or "GO") bonds. In addition to the underlying rating, we have assigned a Aaa enhanced rating to the current offering based on a guarantee provided by the Texas Permanent School Fund (PSF).

SUMMARY RATING RATIONALE

The A1 underlying rating reflects the district's modest tax base, stable enrollment, and stable financial position, including healthy reserves and liquidity. The A1 also reflects the district's high debt burden, considerable state support of annual debt service and weak socioeconomic profile.

The Aaa enhanced rating is based on the rating of the Texas Permanent School Fund (PSF) 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.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

- Sustained significant tax base growth

- Substantial moderation of debt burden

- Continued trend of surplus financial operations, yielding strengthened reserves

- Significantly improved socioeconomic profile

WHAT COULD MAKE THE RATING GO DOWN

- Further leveraging of the debt profile absent taxable value growth

- Significant contraction of full valuation

- Trend of operating deficits leading to a material reduction of reserves

- Considerable enrollment declines leading to operational pressures

STRENGTHS

- Healthy reserves and liquidity

- Stable enrollment

CHALLENGES

- High debt burden

- Below average socioeconomic profile

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: REDUCTION OF FISCAL 2016 FULL VALUATION REFLECTS ADDITIONAL HOMESTEAD EXEMPTIONS

The district's modest tax base of $1.04 billion is expected to stabilize in the near term from moderate new residential development and market appreciation. Located in El Paso County (Aa2 stable) and 18 miles southeast of the City of El Paso, the largely residential tax base is supported by farming and ranching. Fort Bliss military reservation encompasses approximately 1 million acres in the northern portion of the district and we do not expect the projected personnel reductions at the base will have a negative effect on the district's credit profile. Over the last five years, the district's full valuation grew an average 1.9% annually, including a 3.4% decline in fiscal 2016 conservatively incorporates an increase in the mandatory homestead exemption to be decided by voters in a statewide election held in November. If approved, the increased exemption will be effective for the tax year beginning January 1, 2015 (fiscal year 2016). Before exemptions and other adjustments, the appraised value of all taxable property within the district grew 2.9% from the prior year to $1.3 billion in 2016. Single-family and multi-family residential property values grew 1% in 2016 and account for 67.7% of total appraised valuation. Commercial properties, farms and ranches, as well as undeveloped lots account for the remainder of the tax base. Management indicates single-family residential development continues in Horizon City, a growing suburb of El Paso, of which a portion is located within the school district's political boundary. Property taxpayer concentration is modest as the top 10 taxpayers account for a limited 5.2% of 2016 full valuation.

After a modest 0.9% decline in 2015 to 11,703 students, we expect annual enrollment will stabilize in the near term. Management conservatively assumes flat enrollment trends for budgeting and planning purposes. The district's population has grown with the expansion of the El Paso metro area. According to the US Census, population increased nearly 70% in a time span of 10 years, growing to 41,811 in 2010 from 24,983 in 2000. Growth exceeded 150% in the decade prior to 2000. The 2012 American Community Survey data indicate below average wealth levels for the district's population, with median family income of 58.1% of the US. Full value per capita is a very low $24,788. Unemployment in El Paso County was 5.5% in July 2015 and above the state unemployment rate of 4.6%, but below the nation (5.6%) for the same period.

FINANCIAL OPERATIONS AND RESERVES: STRONG FINANCIAL PERFORMANCE YIELDS HEALTHY RESERVES AND LIQUIDITY

We expect the district's strong fiscal management consisting of prudent and conservative budgeting practices and formal financial policies will continue to support a stable financial position, including healthy reserves and liquidity. If voters approve the additional mandatory homestead exemption, the district will be held harmless as state funding for operations and debt service is expected to offset the reduction of local property tax revenues. The district has a formal policy to maintain reserves equal to two months of expenditures and experienced operating surpluses in each of the last five fiscal years, as well as positive budget variances in the last three years. The district projected a $3.0 million reduction of General Fund reserves in fiscal 2014, but ended the year with a $2.7 million surplus which increased the available General Fund balance to $27.6 million (a healthy 28.5% of General Fund revenues).

The district assigned and committed $14 million of the available fund balance for construction and equipment purchases, leaving an unassigned General Fund balance of $13.6 million or a limited 9.6% of revenues relative to the median for the rating category. Including the Debt Service Fund, the available Operating Fund balance was $29.6 million or a healthy 27.2% of Operating Fund revenues. The district is heavily reliant on state aid, which accounted for 78.4% and 77.9% of fiscal 2014 General Fund and Operating Fund revenues, respectively.

The fiscal 2015 budget projected a $1.2 million General Fund surplus after planned one-time capital expenditures of approximately $1 million. However, management indicates a more substantial surplus of $3.5 million due to increased federal funding and favorable expenditure variances. If realized, the operating surplus will increase the available General Fund balance to $31.1 million at year-end 2015, representing a healthy 34.8% of fiscal 2015 budgeted revenues. The district's fiscal 2016 adopted General Fund budget includes modest salary increases and a $5.5 million reduction of reserves to furnish classrooms at the district's two new school facilities currently under construction. The facilities are scheduled for completion around the end of fiscal 2016 (August 31); however, given the timeline for completion, the district may not incur the entire $5.5 million equipment expense in fiscal 2016 and spread the full expense across fiscal years 2016 and 2017. If the district were to incur the entire amount in fiscal 2016, the estimated available General Fund balance of $25.6 million would represent a sufficient 26.3% of budgeted fiscal 2016 General Fund revenues.

In fiscal 2016, the district will levy a maintenance and operations ("General Fund" or "M&O") tax rate of $10.40 per $1,000 of assessed value (AV), the maximum without voter approval. With voter approval, the district may levy a tax rate up to $11.70 per $1,000 of AV, but management expresses no immediate intent to increase the M&O tax rate.

Liquidity

We expect the district will maintain healthy liquidity in the near term. At fiscal year-end 2014, the General Fund reported net cash and investments of $30.8 million, representing a healthy 31.8% of revenues. Including the Debt Service Fund, the district's net cash and investment position was $33.6 million, which represents a healthy 30.9% of Operating Fund revenues (which consists of the General Fund and Debt Service Fund).

DEBT AND PENSIONS: DEBT BURDEN TO REMAIN HIGH

We expect the district's debt burden will remain high in the near term given slow amortization of principal and moderate tax base growth. Post-sale, the district will have $189 million of GO debt outstanding, yielding a very high direct debt burden of 18.2% of fiscal 2016 full valuation. Historically, state aid has supported a significant portion of annual debt service on the district's outstanding GO debt. In fiscal 2014, state funding supported approximately 80% of GO debt service. Conservatively, fiscal 2015 state funding supports about 46% of fiscal 2016 debt service expenditures, yielding an adjusted direct debt burden of 9.8% of 2016 full valuation, which is still very high. However, assuming voters approve the additional mandatory homestead exemption, we estimate the district's adjusted direct debt burden will decrease to 7% to 8% of 2016 full valuation, which is in-line with our analysis in June.

To accommodate a portion of the 35% increase in annual debt service expenditures in fiscal 2016, the district increased the interest and sinking fund ("Debt Service Fund" or "I&S") tax rate to $3.67 per $1,000 of AV. Despite the tax rate increase, local property tax revenues support a modest 20% of fiscal 2016 debt service expenditures; state aid and capitalized interest on the district's $78 million of GO bonds issued in July are the remaining funding sources. Management indicates capitalized interest on the prior GO bond issue is sufficient to cover annual debt service for the first two years. State funding is expect to begin supporting a portion of annual debt service on the bonds in fiscal 2017. The A1 rating reflects our expectation the district will continue to adjust the I&S tax rate, as needed, to yield revenues sufficient to meet annual debt service expenditures.

Although fixed costs will rise in the near term, we believe they will remain a manageable portion of the district's operating budget given our expectation the district will receive additional state funding for debt service in the next two years. Fiscal 2014 debt service expenditures were $11.2 million, representing a manageable 10.6% of Operating Fund expenditures. Total fixed costs, which include debt service and pension contributions, reached $12.6 million in 2014, representing a still manageable 12% of Operating Fund expenditures.

Debt Structure

All of the district's outstanding debt is fixed rate and amortizes over the long term (final maturity is fiscal 2045). Amortization is slow with 31.4% of principal retired in 10 years.

Debt-Related Derivatives

The district does not have any derivative agreements.

Pensions and OPEB

Budgetary pressure due to the district's participation in the Texas Teachers Retirement System (TRS) pension plan is expected to remain manageable in the near term. The State of Texas (Aaa stable) makes most of the annual employer pension contributions on behalf of the district. The district's three-year average adjusted net pension liability (ANPL), under our methodology for adjusting reported pension data, was $64.4 million at fiscal year-end 2014 and 0.59 times fiscal 2014 Operating Fund revenues and 6.2% of fiscal 2016 full valuation.

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 reported contribution information, or the reported liability information of the statewide cost-sharing plans, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, government, and other entities across the globe, please visit Moody's on Pensions at www.moodys.com/pensions.

MANAGEMENT AND GOVERNANCE

As reflected in the "A" institutional framework score, Texas school districts are largely reliant on the state funding formula and enrollment growth to increase revenues, but benefit from a high degree of flexibility to cut expenditures. The district is governed by a seven-member Board of Trustees elected to three year, staggered terms. The district has a formal policy to maintain reserves equivalent to two months of operating expenditures.

KEY STATISTICS

- Full Value, Fiscal 2016: $1.04 billion

- Full Value Per Capita, Fiscal 2016: $24,788

- Median Family Income as % of US Median (2012 American Community Survey): 58.1%

- Operating Fund Balance as % of Revenues, Fiscal 2014: 27.19%

- 5-Year Dollar Change in Fund Balance as % of Revenues: 6.35%

- Cash Balance as % of Revenues, Fiscal 2014: 30.92%

- 5-Year Dollar Change in Cash Balance as % of Revenues: 8.07%

- Institutional Framework: "A"

- 5-Year Average Operating Revenues / Operating Expenditures: 1.01x

- Net Direct Debt as % of Full Value: 9.85%

- Net Direct Debt / Operating Revenues: 0.94x

- 3-Year Average ANPL as % of Full Value: 6.21%

- 3-Year Average ANPL / Operating Revenues: 0.59x

OBLIGOR PROFILE

Clint Independent School District operates as an independent school district under the law of the State of Texas. The district is located entirely within El Paso County and had population of 41,811 residents as of the 2010 US Census.

LEGAL SECURITY

The district's GOULT bonds are secured by a continuing and direct ad valorem tax levied on all taxable property within the district, without limitation as to rate or amount.

USE OF PROCEEDS

Proceeds from the offering will refund certain maturities of the district's outstanding Series 2007 bonds for interest cost savings.

PRINCIPAL 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 March 2015. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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