

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 underlying and Aaa enhanced to China Spring ISD, TX's GOULT Bonds, Series 2021

24 Jun 2021

New York, June 24, 2021 -- Moody's Investors Service has assigned a Aa2 underlying and Aaa enhanced ratings to China Spring Independent School District (ISD), TX's \$51.2 million Unlimited Tax School Building Bonds, Series 2021. Moody's maintains the Aa2 issuer and general obligation unlimited tax (GOULT) ratings. The issuer rating reflects the district's ability to repay debt and debt-like obligations without consideration of any pledge, security or structural features. Post issuance, the district will have \$83.9 million of GOULT debt outstanding.

RATINGS RATIONALE

The Aa2 issuer rating incorporates the district's strong financial position, stable enrollment growth, and favorable resident income. The rating further reflects the district's above Aa2 medians yet manageable leverage and fixed costs. Additionally, the district's strong reserve position provides financial flexibility in event there are adjustments to state aid.

The Aa2 rating on the district's general obligation bonds is equivalent to the Aa2 issuer rating given an unlimited property tax pledge that is dedicated for debt service and levied upon all taxable property within the district.

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 Texas Permanent School Fund Aaa with a stable outlook.

RATING OUTLOOK

Moody's does not usually assign outlooks to local governments with this amount of debt.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Material decline in leverage ratios
- Continued increases in resident wealth
- Not applicable (enhanced)

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Material decline in fund balance or cash
- Increase in long-term liabilities or fixed-costs ratio absent growth in operation
- Trend of declining enrollment
- Rating downgrade of the Texas Permanent School Fund (enhanced)

LEGAL SECURITY

The bonds are payable from a dedicated ad valorem tax levied by the district on all taxable property without limitation as to rate or amount. The district's GOULT bonds are further secured by the Texas Permanent School Fund's commitment to pay debt service if necessary.

USE OF PROCEEDS

The proceeds of Series 2021 bonds will be used for a wide range of capital projects on school facilities.

PROFILE

China Spring Independent School District is located primarily in McLennan County in central Texas, approximately 15 miles northwest of Waco (Aa1 stable). In 2021, the district's enrollment was approximately 2,940.

METHODOLOGY

The principal methodology used in the underlying rating was US K-12 Public School Districts Methodology published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1202421. 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 May 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1068154. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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