MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A1 underlying rating and Aaa enhanced rating to Farmersville Independent School District's [TX] $7.485 million Unlimited Tax Refunding Bonds, Series 2013

Global Credit Research - 14 Jan 2013

A1 affects $14.195 million in parity debt

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

Moody's Rating

ISSUE	UNDERLYING RATING	RATING
Unlimited Tax Refunding Bonds, Series 2013	A1	Aaa

Sale Amount	$7,485,000
Expected Sale Date	01/24/13
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, January 14, 2013 --Moody's Investors Service has assigned an underlying A1 rating to Farmersville Independent School District's [TX] $7.485 million Unlimited Tax Refunding Bonds, Series 2013 and affirmed the A1 underlying rating affecting $6.71 million in outstanding parity debt. In addition to the underlying rating, we have assigned a Aaa enhanced rating to the current sale provided by a guarantee of the Texas Permanent School Fund (PSF).

SUMMARY RATING RATIONALE - UNDERLYING

The bonds are secured by an ad valorem tax levied without limit as to rate or amount on all taxable property within the District. Proceeds from the bonds will be used to refund existing debt for savings without extension of final maturity. The A1 rating reflects a modestly sized tax base favorably located in the Dallas/Fort Worth Metroplex and healthy General Fund reserve levels. The rating also takes into consideration the high debt burden that will likely remain elevated for the medium to long term.

SUMMARY RATING RATIONALE - ENHANCED

The Aaa rating reflects Moody's assessment of the PSF's ability to make payments on the guarantee relative to the substantial value of the fund corpus. Additional credit considerations include: the PSF's constitutionally protected corpus, the credit quality of the Texas school district G.O. debt guaranteed by the fund, an investment portfolio that provides satisfactory coverage and liquidity given our estimated probability of calls on the guarantee, and strong legal mechanics that facilitate timely reimbursement to the PSF should guarantee payments occur. The affirmation also reflects an expected increase in PSF leverage to no more than 3.0x PSF cost value and incorporates legislation and potential constitutional amendments adopted in the 2011 legislative session. For additional information on the PSF program, please see Moody's High Profile Ratings Update "Texas Permanent School Fund (PSF)" dated September 2011.

STRENGTHS

Stable tax base and enrollment

Healthy General Fund reserve

CHALLENGES

High debt burden

Slow down in tax base growth

DETAILED CREDIT DISCUSSION

TAX BASE GROWTH ANTICIPATED TO CONTINUE AT A SLOWER PACE

Farmersville ISD serves the City of Farmersville and is located in Collin County (Aaa). The district's socioeconomic profile is reflected in the 2010 per capita income was equal to 84% of the US and 93% of the State. The population is currently estimated to be 7,733.

The district's average daily attendance (ADA) in the 2012/2013 tax year was 1,406 and an increase over the 2011/2012 year. Historically, the ADA has been relatively close to 1,400. The top ten taxpayers are primarily real estate holdings with some light manufacturing, a utility and a grocery store also included and they total less than 9.6% of the total tax base. In fiscal 2013, the district's full valuation was $329 million. Over the last five years, the tax base has experienced some very minor fluctuations up and down but the net effect reflects a 1.5% increase. Officials stated that the Collin County Community College District recently announced that a campus in Farmersville is included in the district's 5 year plan and this project could lead additional economic growth in the future. Although the size of the district's tax base is relatively modest, the history of stability over time is also considered in the rating assignment.

HEALTHY GENERAL FUND RESERVE

General Fund operations are supported 61% from State revenues and 38% from local property taxes. The district is intentionally growing the General Fund balance in order to support a future facility. In approximately five years, officials project they will be asking voters to approve a bond referendum to construct a new junior high to replace the existing school. Along with bond proceeds, the district intends to support approximately $10 million of the project with cash on hand that is currently being built up in the General Fund balance.

In fiscal 2010, the district increased the operations and maintenance tax rate to $11.70 per $1,000 of assessed valuations which is the maximum rate allowed by state statute. To offset the overall impact to taxpayers for fiscal 2010, the district lowered the interest and sinking (I&S) fund tax rate from $2.70 to $1.40 although the I&S rate will increase annually until it again totals $2.70 which is expected to occur in fiscal 2014.

Annual surpluses in the General Fund are the result of conservative budgeting for both revenues and expenditures by district management. The most recent surplus of $1.2 million increased the General Fund balance to $11.7 million, equal to 107.3% of General Fund revenues and the unassigned balance of $5.4 million was a healthy 49.7% of General Fund revenues.

DEBT BURDENS WILL REMAIN SLIGHTLY ELEVATED

The current issue is a refunding for an expected $680,000 in net present value savings which will be taken over the life of the bonds with no extension of final maturity. In approximately five years the district will seek authorization to replace the existing junior high. The project could total as much as $25 million with $10 million supported from cash on hand and the remainder to come from bond proceeds. The district's direct burden is 3% when taking into consideration debt that is supported by State revenues and the overall debt burden increases to 5.2% when including the overlapping municipalities. Without State support, the direct debt burden would increase to 4.3%. Payout of debt is average with 52.9% of principal repaid in ten years. The district does not have variable rate debt and is not party to any swap agreements. With very modest tax base increases and future debt plans, the debt burdens will remain slightly elevated but manageable.

WHAT COULD MAKE THE RATING GO UP

Significant tax base growth

Improvement in debt burdens

WHAT COULD MAKE THE RATING GO DOWN

Trend of declines on the tax base

Declining General Fund balance or narrowing liquidity

KEY STATISTICS:

2013 Population: 7,733 (114.4% increase over 2000)

Enrollment: 1,406

2013 Full valuation: $329 Million

2013 Full value per capita: $43,067

Direct debt burden: 3%

Overall debt burden: 5.2%

Payout: 52.9%

2012 General Fund balance: $11.7 million (107.3% of General Fund revenues)

Post-sale parity debt: $14.195 million

The principal methodology used in rating the underlying rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. The methodology used in rating the enhanced rating was based on Moody's assessment of the PSF's ability to make payments on the guarantee relative to the substantial value of the fund corpus. Additional credit factors relevant to the rating include: i) constitutional protections for the corpus 2) strong state involvement in school districts and state aid intercept/school district takeover authority 3) coverage for potential calls on guarantee 4) size, concentration and correlation of guaranteed debt 5) issuer's management and governance 6) investment portfolio and liquidity. These attributes were compared against other issuers both within and outside of Texas PSF's core peer group and Texas PSF's ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk. 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.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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