MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa3 underlying to Frenship ISD, TX's $31M GOULT Series 2015A and B

Global Credit Research - 08 Apr 2015

Assigns Aaa enhanced to $6.2M Series 2015B

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

Moody's Rating

ISSUE		UNDERLYING RATING	RATING
Unlimited Tax Refunding Bonds, Series 2015B		Aa3	Aaa
Sale Amount	$6,180,000		
Expected Sale Date	04/13/15		
Rating Description	General Obligation		
Unlimited Tax Refunding Bonds, Series 2015A		Aa3	
Sale Amount	$24,845,000		
Expected Sale Date	04/13/15		
Rating Description	General Obligation		

Moody's Outlook NOO

NEW YORK, April 08, 2015 –Moody's Investors Service has assigned a Aa3 underlying rating to Frenship Independent School District's, TX $24.845 million Unlimited Tax Refunding Bonds, Series 2015A and $6.18 million Unlimited Tax Refunding Bonds, Series 2015B. Concurrently, we have assigned a Aaa enhanced rating to Series 2015B based on a guarantee by the Texas Permanent School Fund (PSF). We also maintain a Aa3 rating on the district's $205.96 million outstanding parity debt.

SUMMARY RATING RATIONALE - UNDERLYING

The rating reflects the district's sizable tax base that continues to grow, stable history of financial operations, and favorable socio-economic profile. The Aa3 rating also incorporates the district's elevated debt burden and slow principal amortization rate.

SUMMARY RATINGS RATIONALE - ENHANCED

The Aaa enhanced rating reflects Moody's assessment of the Texas Permanent School Fund's (PSF) substantial available assets relative to current and permissible levels of guarantee commitments, the strong credit quality and security features of Texas school district G.O. obligations guaranteed by the fund, and state constitutional limits on distributions from the fund for non-guarantee purposes. The rating also reflects the fund's large investment allocation in potentially volatile equity securities, satisfactory timing provisions for guarantee payments, and strong legal mechanics for timely reimbursement to the PSF should guarantee payments occur.

For additional information on the PSF program, please see Moody's Credit Focus on the Texas Permanent School Fund dated April 17, 2014.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

- Maintenance of balanced operations

- Moderation of the district's debt burden

- Substantial taxable valuation growth

WHAT COULD MAKE THE RATING GO DOWN

- Erosion of reserve levels

- Substantial increases in debt burden without corresponding taxable value growth

- Significant declines in taxable valuation

STRENGTHS

- Sizable tax base experiencing continuing growth

- Prudent fiscal management resulting in healthy reserves

CHALLENGES

- High debt burden

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

REVENUE GENERATING BASE: SIZABLE TAX BASE PROJECTED TO EXPAND MODERATELY IN THE MID-TERM

We anticipate further growth in the district's sizeable tax base given continuous development within its service area, as well as its favorable location approximately 10 miles southwest of the City of Lubbock (Aa2 stable). Frenship ISD is primarily situated in Lubbock County (Aa1), with a portion spanning into Hockley County. The district's residential tax-base benefits significantly from its proximity to Texas Tech University (Texas Tech University System revenue rating Aa1 stable). Other drivers of growth include agribusiness and manufacturing. After experiencing double-digit percentage tax base increases annually through much of the 2000's, the pace of the district's growth has moderated, but remains robust. Assessed values grew by 5.5% in fiscal 2014 to $2.78 billion, an increase of 250% since fiscal 2004. Fiscal 2015 value of $2.99 billion reflects another 7.6% increase. Annual assessed valuation growth in the five year period through fiscal 2015 averaged 5.4%. The district's tax base is diverse, with the top ten taxpayers comprising only 5.2% of fiscal 2015 assessed valuation. Management anticipates annual assessed valuation growth will average between 3.5% and 5% over the next decade before tapering off to annual increases of 2% - 3%.

The district's population increased by a significant 47.5% to 42,332 from 2000 to 2010. The district's socio-economic profile is favorable, with median family income at 109.6% of the US in 2012 (American Community Survey). Enrollment continues to grow with an annual average increase of 4.9% to 8,380 students over the five years ending fiscal 2014. Management expects enrollment trends to be in line with the estimated economic expansion and to continue at a similar pace over the medium term.

FINANCIAL OPERATIONS AND POSITION: STRONG FISCAL MANAGEMENT EXPECTED TO PROVIDE CONTINUING STABILITY

We expect district management's prudent planning and budgeting to result in balanced operations and maintenance of healthy reserves. Conservative budgeting practices and strong line item expenditure control have resulted in General Fund operating surpluses each year since fiscal 2002, despite significant capital needs and increasing fixed costs due to rapidly increasing enrollment. Fiscal 2014 yielded a $1.45 million General Fund surplus and an ending fund balance of $18.2 million, or 31.2% of revenues. Fiscal 2014 General Fund revenues consisted of an even mix of property taxes (51.4%) and state-aid (47.6%).

Officials report that the fiscal 2014 surplus will be used for small one-time bonus payments to employees and thus expect a draw on reserves in fiscal 2015. We expect the district will continue to maintain favorable reserve levels above their informal target of 20% of annual expenditures given the trend of stable financial operations and conservative budgeting practices. The district currently levies maintenance and operations (M & O) tax of $10.40 per $1,000, the maximum without voter approval. With voter approval, the district could levy up to $11.70 per $1,000 of assessed values, but officials have expressed no desire for the additional taxing authority.

Liquidity

At the end of fiscal 2014, General Fund cash of $19.2 million represented 32.9% of revenues.

DEBT AND OTHER LIABILITIES: ELEVATED DEBT BURDENS WITH SLOW PRINCIPAL AMORTIZATION

The district's direct debt burden is elevated at 7.8% of fiscal 2015 assessed valuation, which excludes the amount supported by the state (estimated 4.9%). We expect the debt burden to remain elevated over the long term due to the slow principal payout of 27.7% in ten years.

The district's debt burden is elevated due to the large amount of recent debt issuance to build facilities to accommodate rapid enrollment growth. Management does not expect to seek additional debt authorization until approximately 2019.

Debt Structure

All of the district's debt is fixed rate and amortizes over the long term.

Debt-Related Derivatives

The district is not party to any interest rate swaps or 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 minimal in the near term. The State of Texas (Aaa/stable) makes most of the employer pension contributions on behalf of the district annually. Moody's adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $21.3 million. This liability is equal to 0.32 times annual operating revenues in fiscal 2013, including the General and Debt Service Funds. The three-year average of the district's ANPL to Operating Revenues is 0.35 times.

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 state-wide 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, governments, and other entities across the globe please visit Moody's on Pensions at www.moodys.com/pensions.

MANAGEMENT AND GOVERNANCE

Texas school districts have an institutional framework score of "A", or moderate. Revenues are comprised of local taxes and state aid and determined by the state funding formula. While school districts maintain some revenue raising flexibility with tax rates under the state mandated cap, districts are dependent on enrollment growth to drive additional revenue. Expenditures are highly predictable and districts have a high degree of flexibility to make cuts given the lack of unions within the state. In the near to medium term, there is uncertainty regarding the funding of school districts given the most recent ruling that the current school finance system is unconstitutional.

KEY STATISTICS

- FY 2015 full valuation: $2.99 billion

- FY 2015 full value per capita: $70,772

- 2012 ACS Median Family Income: 109.6% of US

- Operating Fund balance as a % of operating revenues: 34.81%

- 5 year dollar change in fund balance as a % of operating revenues: 12.50%

- Cash balance as a % of operating revenues: 36.54%

- 5 year dollar change in cash balance as a % of Revenues: 17.03%

- Institutional Framework: A

- Operating history: 5 year average of operating revenues/operating expenditures: 1.03x

- Net direct debt/full value: 7.82%

- Net direct debt/operating revenues: 3.25

- 3 year average of Moody's adjusted pension liability/full value: 0.84%

- 3 year average of Moody's adjusted net pension liability/operating revenues: 0.35x

OBLIGOR PROFILE

Frenship ISD is primarily situated in Lubbock County (Aa1), with a portion spanning into Hockley County.

LEGAL SECURITY

The bonds are secured by an annual ad valorem tax, levied against all taxable property in the district without legal limitation as to rate or amount.

USE OF PROCEEDS

Proceeds of the Series 2015A and B Bonds will be used to refinance a portion of the district's outstanding debt for net present value savings of approximately $2.1 million with no extension of final maturity.

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.

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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