MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa3 underlying/Aaa enhanced to Snyder CISD's (TX) $15M GO bonds

Global Credit Research - 06 Aug 2014

District has $24.1M rated debt including current offering

SNYDER CONSOLIDATED INDEPENDENT SCHOOL DISTRICT, TX
Public K-12 School Districts
TX

Moody's Rating

ISSUE	UNDERLYING RATING	RATING
Unlimited Tax School Building Bonds, Series 2014	Aa3	Aaa

Sale Amount	$15,000,000
Expected Sale Date	08/11/14
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, August 06, 2014 --Moody's Investors Service has assigned a Aa3 underlying rating to Snyder Consolidated Independent School District's (TX) $15 million Unlimited Tax School Building Bonds, Series 2014. Concurrently, we have affirmed the Aa3 rating on $9.1 million of the district's outstanding parity debt. In addition to the underlying rating, we have assigned a Aaa enhanced rating to the Series 2014 bonds provided by a guarantee of the Texas Permanent School Fund (PSF). Proceeds from the current offering will fund a portion of a new middle school and various improvements to other facilities.

SUMMARY RATING RATIONALE - UNDERLYING

The bonds are secured by an unlimited ad valorem tax on all taxable property within the district. The Aa3 rating reflects the district's large tax base concentrated in oil and gas mineral values and dependent on the oil and gas industry, average socioeconomic profile, healthy financial position supported by strong reserve levels, and below average direct debt burden.

SUMMARY RATING RATIONALE - ENHANCED

The Aaa enhanced rating reflects Moody's assessment of the Texas Permanent School Fund's (PSF) 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.

For additional information on the PSF program, please see Moody's Ratings Update Report on the Texas Permanent School Fund dated February 28, 2014.

STRENGTHS:

-Healthy financial position

-Low direct debt burden and descending debt service payments

CHALLENGES:

-Significant economic dependence on oil and gas industry

-Stagnant enrollment growth

DETAILED CREDIT DISCUSSION

LARGE, OIL AND GAS DEPENDENT TAX BASE IN WEST TEXAS

Expansion of the district's large tax base is expected to continue in the near term from ongoing oil and gas drilling activities. However, given the district's economic dependence on oil and gas mineral values and significant taxpayer concentration, the tax base remains susceptible to volatilities in the prices of oil and gas. Snyder Consolidated Independent School District is located 88 miles northeast of city of Midland (GOLT Aa1) and 81 miles northwest of Abilene (GOLT Aa2) in Kent and Scurry counties. Oil and gas mineral values make up almost half of the total tax base and taxpayers are concentrated in the oil and gas industry. Fiscal 2014 taxable values include oil, gas and mineral reserves (47.3%), real and tangible industrial property (25.4%), single-family homes (9.5%), and acreage (9.3%). The tax base has fluctuated with changing mineral values over the last five years. After a 16.7% decline in fiscal 2010, the tax base grew $880 million over the next four years to yield a sizeable $3.2 billion full valuation in fiscal 2014. Oil, gas and mineral values increased $678 million (65.5%) since fiscal 2010 and are the primary contributor to recent tax base growth. The three largest property taxpayers are oil and gas related and account for a substantial 47.2% of fiscal 2014 full values. The district's largest taxpayers are Kinder Morgan Inc. (29.7% of full values; corporate family rating Ba2), Patterson UTI Drilling Company (10.7%), and Occidental Permian Ltd (7.3%). While the district's tax base expanded at a robust pace in recent years, we believe it remains inherently vulnerable to fluctuations of oil and gas mineral values because of its lack of economic diversification.

Enrollment decreased by an average 1.4% annually over the last five years to 2,767 students in fiscal 2014. The rate of annual enrollment decline slowed to 0.2% in fiscal 2014. Management expects modest annual enrollment growth in the next couple of years upon completion of two small residential developments containing a total 120 lots. Resident income levels are average with median family income of $57,544 equal to 89% of the US median according to the 2012 American Community Survey. The 3.0% unemployment rate in Scurry County and 4.3% rate in Kent County in May 2014 are below the state (5.1%) and national (6.1%) unemployment rates for the same period.

HEALTHY FINANCIAL POSITION SUPPORTED BY STRONG RESERVE LEVELS

The district's financial position is expected to remain healthy given a history of surplus operations and maintenance of strong reserve levels consistent with a fund balance target of six months of General Fund expenditures. Six consecutive fiscal years of surplus financial operations increased the district's operating fund balance (operating fund includes the General Fund and Debt Service Fund) by $8.9 million (43.5%) since fiscal 2008 yielding an available operating fund balance of $29.3 million in fiscal 2013.

The fiscal 2013 original budget reflected a $1.6 million surplus, but a mid-year budget amendment increasing capital spending by $2.3 million created a modest $22,000 operating deficit. The available General Fund balance at fiscal year-end totaled $29.3 million, which is a strong 80.7% of General Fund revenues. The unassigned General Fund balance was $14.2 million, a healthy 39.1% of revenues. The district has $13.8 million General Fund balance that is committed for capital projects and will be used over the near-term, in conjunction with proceeds from the current bonds, to fund construction of a new middle school and renovation of existing school facilities. Fiscal 2014 unaudited results reflect stable unassigned fund balance and officials expect to maintain unassigned fund balance of at least six months of General Fund expenditures going forward.

Snyder CISD received a majority of fiscal year 2013 operating revenues from local property taxes (89.7%) and state funding (8.5%). The district levied a maintenance and operations (M&O) tax rate of $10.40 per $1,000 of full value in fiscal 2014, which is the maximum allowable M&O tax rate levy, absent voter approval. Officials indicate no plan to seek approval to increase the tax rate up to $11.70 per $1,000 of full value at this time. We expect the district's financial position to remain strong given a history of stable operations and maintenance of healthy reserve levels.

LOW DEBT BURDEN; DESCENDING DEBT SERVICE PAYMENTS

The district's debt burdens (1.1% direct; 1.9% overall) are expected to remain low for the rating category given the district's paygo funding of capital expenditures, lack of plans for additional borrowing, and descending debt service

schedule. Historically, the district's annual operating budget includes a significant amount of capital expenditures paid from current year revenues. Over the last five years, annual capital outlays ranged from $2.9 million in fiscal 2010 (8.2% of expenditures) to $7 million in fiscal 2013 (19.2% of expenditures). Inclusive of the current sale, the district's outstanding debt includes $29.9 million of rated GOULT bonds and $5.7 million of unrated GOLT Qualified School Construction Maintenance Tax Notes. The current bonds were approved by 55.5% of voters in May 2014 and the district does not have any outstanding authorized but unissued debt. Payout of principal is average with 65.6% retired within 10 years. Declining debt service requirements allow the district to match relatively higher annual debt service payments to increasing property values, which are dependent upon historically cyclical oil and gas mineral values. Debt service is structured such that the district's Interest and Sinking Fund (I&S) levy of $1.24 per $1,000 of full value will support debt service requirements even if the tax base decreases $250 million per year over the next five years. The district does not have any outstanding variable rate debt or interest rate swaps.

Budgetary pressure due to the district's participation in the Texas Teachers Retirement System pension plan is expected to remain minimal in the near term. The State of Texas (Aaa

stable) makes the majority of 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 $12.5 million, or a modest 0.23 times fiscal 2012 operating revenues.

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 liability information, 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.

WHAT COULD MAKE THE RATING GO - UP

-Significant economic diversification coupled with improved wealth levels

WHAT COULD MAKE THE RATING GO - DOWN

-Deterioration of fund balance or liquidity

-Trend of declining enrollment

-Contraction of the tax base

KEY STATISTICS

FY 2014 Full Value: $3.2 billion

FY 2014 Full Value Per Capita: $205,866

2012 ACS Median Family Income as a % of the US: 89%

FY 2013 Operating Fund Balance as a % of Operating Revenues: 73.1%

5 Year Dollar Change in Fund Balance as a % of Operating Revenues: 22.2%

FY 2013 Operating Cash Balance as a % of Operating Revenues: 92.9%

5 year Dollar Change in Cash Balance as a % of Operating Revenues: 32.1%

Institutional Framework: "A"

Operating History: 5 Year Average of Operating Revenues/Operating Expenditures: 1.07x

Net Direct Debt/Full Value: 1.1%

Net Direct Debt/Operating Revenues: 0.89x

3 year Average of Moody's Adjusted Net Pension Liability/Full Value: 0.3%

3 year Average of Moody's Adjusted Net Pension Liability/Operating Revenues: 0.23x

PRINCIPAL METHODOLOGY

The principal methodology used in rating the underlying debt was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The Texas PSF rating was assigned based on Moody's assessment of the PSF's ability to make payments on the guarantee relative to the substantial value of the fund. Additional credit factors relevant to the rating include: 1) constitutional protections for the fund 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.

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