



Rating Action: Moody's assigns Aa2 UND/Aaa ENH to Pearland ISD, TX's GOs; stable outlook on underlying rating

24 Oct 2023

New York, October 24, 2023 -- Moody's Investors Service has assigned a Aa2 underlying and a Aaa enhanced rating to Pearland Independent School District, TX's Unlimited Tax Refunding Bonds, Series 2023 with an anticipated par amount of about \$20 million. Moody's maintains the previously assigned Aa2 issuer rating as well as the Aa2 underlying rating on the district's previously rated general obligation unlimited tax (GOULT) debt. Post-issuance, the district will have about \$358 million of GOULT debt outstanding. The outlook on the underlying rating is stable.

RATINGS RATIONALE

The Aa2 issuer rating reflects the district's strong financial position that has been improving in recent years and will likely be maintained, as well as the district's stable local economy with above average resident income levels. The rating also reflects the district's relatively stable though slightly declining enrollment trends that are expected to continue for the foreseeable future. Pearland ISD's long-term liabilities are in line with the median among similarly rated school districts, and are expected to moderate steadily given no plans for additional debt issuance and planned cash defeasance of certain outstanding obligations.

The Aa2 underlying rating assigned to the district's general obligation bonds is equivalent to the Aa2 issuer rating based on the district's 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 PSF Aaa.

RATING OUTLOOK

The stable outlook on the underlying rating reflects our expectation that the district will continue to exhibit strong financial management resulting in stable financial operations and enrollment declines will moderate following the negative impact of the pandemic but will continue to decline modestly each year. Finally, we expect the debt burden will decrease over time.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Material decline in long-term liabilities and/or fixed costs
- Prolonged trend of steady positive enrollment growth
- Significant economic expansion, evidenced by full value per capita growth and/or resident income
- Not applicable (enhanced)

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Trend of operating imbalances leading to materially weakened financial reserves

- Trend of declining enrollment beyond current expectations of modest declines
- Large increase in long-term liabilities and/or fixed costs
- Rating downgrade of the Texas Permanent School Fund (enhanced)

LEGAL SECURITY

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

USE OF PROCEEDS

Proceeds of the bonds will be used to refund certain of the district's previously issued GOULT bonds for debt service savings.

PROFILE

Pearland ISD encompasses roughly 43 square miles in northeast Brazoria County (Aa1). The district is predominantly residential and serves the City of Pearland (Aa2 stable), which is located 15 miles south of downtown Houston (Aa3 stable). The district provides pre-K through 12th grade education to roughly 21,080 students across 23 campuses.

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://ratings.moodys.com/mmc-documents/70054>. The principal methodology used in this enhanced rating was Guarantees, Letters of Credit and Other Forms of Credit Substitution Methodology published in July 2022 and available at <https://ratings.moodys.com/mmc-documents/386295>. Alternatively, please see the Rating Methodologies page on <https://ratings.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 on <https://ratings.moodys.com/rating-definitions>.

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