

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings assigns Aa2 UND/Aaa ENH to Pearland ISD, TX's GOs**

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11 Jul 2024

New York, July 11, 2024 -- Moody's Ratings (Moody's) has assigned Aa2 underlying and Aaa enhanced ratings to Pearland Independent School District, TX's Unlimited Tax School Building Bonds, Series 2024 with an anticipated par amount of approximately \$53 million. At the same time, we have affirmed the district's Aa2 issuer and general obligation unlimited tax (GOULT) ratings. Post-sale the district will have about \$385 million of GOULT debt outstanding. The outlook on the underlying ratings is stable.

#### RATINGS RATIONALE

The Aa2 issuer rating reflects the district's strong financial position, with available fund balance and liquidity of over 35% of revenues, that has been stable in recent years and will likely be maintained given the recent successful tax ratification election. The rating also incorporates the district's stable local economy with strong residential housing demand supported by its proximity to employment opportunities in the Houston (Aa3 stable) area. The district's status as a bedroom community with more affordable home values has resulted in a below median \$96,530 full value per capita, although resident incomes are strong when adjusted for regional price parity at 150% of the US. The rating also reflects the district's relatively stable enrollment trends that are expected to continue for the foreseeable future. Pearland ISD's long-term liabilities (265% of operating revenues) are below the median for similarly rated school districts, and will remain stable given plans for additional debt issuance that will be somewhat offset by 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. We currently rate the Texas Permanent School Fund 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 will remain relatively stable.

## FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Material, sustained decline in long-term liabilities to below 250% of operating revenues
- Prolonged trend of positive enrollment growth
- Not applicable (enhanced)

## FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Trend of operating imbalances leading to a decline in fund balance and/or liquidity to below 25% of operating revenues
- Large increase in long-term liabilities to over 400% of revenues
- 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

Bond proceeds will be used to fund HVAC, electrical, plumbing, roofing, parking, and security improvements across the district. Bond proceeds will also be used for the purchase and upgrade of technology devices and instructional technology for the district.

## PROFILE

Pearland ISD encompasses roughly 43 square miles in northeast Brazoria County (Aa1). The district is predominantly residential and serves the City of Pearland (A2 negative), which is located 15 miles south of downtown Houston. The district provides pre-K through 12th grade education to about 21,000 students.

## METHODOLOGY

The principal methodology used in the issuer and underlying ratings was US K-12 Public School Districts Methodology published in January 2021 and available at <https://ratings.moodys.com/rmc-documents/70054>. The principal methodology used in the 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/rmc-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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