

Rating Action: Moody's assigns Aa2 UND/Aaa ENH to Pearland ISD, TX's GOULT bonds, Ser. 2020; stable outlook

25 Sep 2020

New York, September 25, 2020 -- Moody's Investors Service has assigned Aa2 underlying and Aaa enhanced ratings to Pearland Independent School District, TX's \$79 million Unlimited Tax Refunding Bonds, Series 2020. Moody's maintains the Aa2 underlying rating on the district's outstanding general obligation unlimited tax debt, affecting \$373.2 million of rated debt. The outlook is stable.

RATINGS RATIONALE

The Aa2 underlying rating reflects the district's moderately-sized tax base that will continue to grow modestly from residential development, and a well-managed financial position with healthy reserves. The rating also reflects an elevated debt burden, manageable pension and other post-employment benefit liabilities, above average resident incomes and positive enrolment trends.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action because of the district's healthy financial position and stable tax base. The situation surrounding the coronavirus is rapidly evolving and the longer-term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the district changes, we will update the rating and/or outlook at that time.

The Aaa enhanced rating is based on the rating of the Texas Permanent School Fund 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 Permanent School Fund Aaa with a stable outlook.

RATING OUTLOOK

The stable outlook reflects our expectation of continued sound financial management and maintenance of healthy general fund reserves. Additionally, despite anticipated valuation growth, the debt burden will remain elevated over the medium term because of slow principal amortization, but the district has no near-term plans to approach voters for additional debt authorization.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Significant decline in the debt burden
- Material taxable valuation growth
- Trend of large surplus operations leading to bolstered reserves
- Not applicable (enhanced)

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Trend of assessed value declines
- Structural imbalance leading to a material decline in reserves
- Increase in the debt burden
- Rating downgrade of the Texas Permanent School Fund (enhanced)

LEGAL SECURITY

The bonds are secured by an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the district. The bonds are further secured by the Texas Permanent School Fund's commitment to pay debt service if necessary.

USE OF PROCEEDS

Proceeds will refund a portion of the outstanding Series 2001B, 2011, 2012 and 2013B GOULT bonds for net present value savings and no extension of final maturity.

PROFILE

Pearland ISD is 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 serves more than 21,700 students across 23 campuses.

METHODOLOGY

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1230443. 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 May 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1068154. Alternatively, please see the Rating Methodologies page on www.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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

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