

# MOODY'S

## INVESTORS SERVICE

### New Issue: Moody's affirms A1 on Silsbee ISD's, TX GOULT bonds and downgrades GOLT notes to A2

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Global Credit Research - 08 Jun 2015

**Assigns A1 underlying/Aaa enhanced to \$4.1M GO bonds, Ser. 2015; A2 to \$2M Ser. 2015 GOLT notes**

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

#### Moody's Rating

ISSUE	RATING
Maintenance Tax Notes, Series 2015	A2
<b>Sale Amount</b> \$2,030,000	
<b>Expected Sale Date</b> 06/09/15	
<b>Rating Description</b> General Obligation Limited Tax	
Unlimited Tax School Building Bonds, Series 2015	A1
<b>Sale Amount</b> \$4,120,000	
<b>Expected Sale Date</b> 06/09/15	
<b>Rating Description</b> General Obligation	
Unlimited Tax School Building Bonds, Series 2015	Aaa
<b>Sale Amount</b> \$4,120,000	
<b>Expected Sale Date</b> 06/09/15	
<b>Rating Description</b> General Obligation	

#### Moody's Outlook NOO

NEW YORK, June 08, 2015 --Moody's Investors Service has affirmed the A1 rating on Silsbee Independent School District's, TX outstanding general obligation unlimited tax bonds and assigned an A1 underlying and Aaa enhanced ratings to the district's \$4.1 million Unlimited Tax School Building Bonds, Series 2015. Additionally, we have downgraded the district's outstanding general obligation limited tax notes to A2, affecting \$170,000 of outstanding debt, and assigned an A2 rating to the district's \$2 million Maintenance Tax Notes, Series 2015. The Aaa enhanced rating reflects the guarantee of the Texas Permanent School Fund.

#### SUMMARY RATING RATIONALE - UNDERLYING

The A1 rating reflects Silsbee Independent School District's moderately sized tax base and above average taxpayer concentration, below average socioeconomic profile, healthy reserves, and an elevated debt burden. The downgrade to A2 of the district's GOLT debt reflects an absence of operating tax rate flexibility securing repayment of the GOLT debt, as well as competition from other operating expenditures paid from the same levy. The district levies the maximum operating tax rate permitted by state law of \$11.70 per \$1,000 of assessed value.

#### SUMMARY RATING RATIONALE - ENHANCED

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 Permanent School Fund Aaa.

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 usually not assigned to local government credits with this amount of debt outstanding.

## WHAT COULD MAKE THE RATING GO UP

Significant tax base growth and diversification

Substantially improved socioeconomic profile

## WHAT COULD MAKE THE RATING GO DOWN

Increased debt burden

Deterioration of reserves or liquidity

Material contraction of the tax base

## STRENGTHS

Moderately sized tax base with recent growth in taxable values

Low pension liability

## CHALLENGES

Above average debt burden

Stagnant population and declining enrollment

Below average socioeconomic profile

## RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

## DETAILED RATING RATIONALE

### ECONOMY AND TAX BASE: STABILIZATION OF MODERATELY SIZED TAX BASE CONTINUES

The district's moderately sized tax base of \$814.7 million will continue to stabilize over the next few years from increasing property reappraisals and new commercial and industrial construction. Silsbee Independent School District covers a 629 square mile area 15 miles north of the City of Beaumont (GOLT Aa2) in Hardin County (GOLT Aa3). The district's tax base grew an average 4.4% annually over the last five years from sizeable annual increases of 6.5% and 5.4% in fiscal 2014 and 2015. The recent growth, which officials attribute to higher reappraisals of existing residential and commercial property, offset modest declines in fiscal years 2010 and 2011, yielding a full valuation of \$814.7 million in 2015. Taxpayer concentration is above average given the ten largest property taxpayers account for 22.1% of 2015 full valuation, primarily consisting of timber and petrochemical firms. The top taxpayer, South Hampton Resources, a petrochemical firm, represents 6.6% of 2015 values and is currently undergoing a \$30 million expansion of its facilities. Management expects market appreciation and new commercial industrial construction will yield a modest increase of values in fiscal 2016.

Resident income levels remain below average with median family income of \$58,644 equal to 90.8% of the US median (2012 American Community Survey). As of March 2015, Hardin County's unemployment rate of 5.2% exceeded state's unemployment rate (4.2%) and was just below the national unemployment rate (5.6%) during the same period. The district's population of 16,892 residents as of the 2010 Census has remain unchanged since the 1980 US Census, declining 0.21% over the 30-year period. Annual enrollment has declined in the last several years by an average 1.8% annually to 2,739 students in 2014. Fiscal 2015 enrollment projections indicate a 1.1% decline to 2,710 students.

### FINANCIAL OPERATIONS AND RESERVES: HEALTHY FINANCIAL CONDITION TO CONTINUE DESPITE EXPECTED REDUCTION OF RESERVES IN NEAR TERM

We believe that Silsbee Independent School District's financial condition will remain healthy due to conservative budgeting and a historically stable fund balance. It is the district's policy to maintain a \$4 million unassigned General Fund balance (equal to 16% of fiscal 2014 revenues). Amounts in excess of this policy are committed to future capital projects. Total General Fund reserves have exceeded 20% of revenues for the last five years, but are expected to decline in fiscal 2015 for deferred capital expenditures from fiscal 2014. Fiscal 2014 operations reflect a \$699,000 increase of General Fund reserves as the district deferred several capital projects to fiscal 2015. The surplus financial operations improved the available General Fund balance to \$5.6 million and a healthy 23.5% of fiscal 2014 revenues. The district plans to spend approximately \$750,000 to repair the high school track, fund various technology upgrades, as well as acquire some buses in fiscal 2015. If realized, the draw on reserves would reduce the district's available General Fund balance to \$4.9 million and 20% of fiscal 2014 revenues. Given the district's issuance of limited tax obligations, albeit a small portion of total annual General Fund expenditures, future reviews will focus on the district's ability to return to structurally balanced operations and maintain adequate reserves.

Fiscal 2014 General Fund revenues consisted of state revenues (59.8%) and local property taxes (39.5%). The district levied a maintenance and operations (M&O) tax rate of \$11.70 per \$1,000 of assessed value, which is the maximum operating tax rate permitted under state law.

#### Liquidity

The net cash position of the General Fund at fiscal year-end 2014 was \$6.5 million, which is a healthy 27% of General Fund revenues. Including the Debt Service Fund, the district's cash position was \$6.7 million and 26.3% of 2014 operating revenues (consisting of the General Fund and Debt Service Fund).

#### DEBT AND PENSIONS: ELEVATED DEBT BURDEN TO CONTINUE IN NEAR TERM

We expect the district's debt burdens will remain above average in the near term given slow tax base growth expectations and below average principal amortization (51.4% retired in 10 years). State funding supports about 14% of the district's annual GO debt service, yet the district's debt burdens are above average at 4.2% direct (4.6% overall), expressed as a percent of fiscal 2015 values. The district does not have any authorized unissued GOULT debt and management indicates no plan to seek authorization from voters in the near term. Officials indicate the district may issue additional limited tax debt in the near term for school buses and other capital projects related to maintenance and repair. Post-sale, the district will have \$40.6 million of outstanding GOULT debt and \$2.2 million of outstanding GOLT debt. The GOLT debt is secured by the district's operating tax rate of \$11.70 per \$1,000 of assessed value, which is the maximum permitted under state law and the primary reason for the A2 rating assignment.

#### Debt Structure

All of the district's outstanding debt is fixed rate and amortizes through final maturity (fiscal 2039).

#### Debt-Related Derivatives

The district does not have any 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. At fiscal year-end 2013, the district's three-year average adjusted net pension liability (ANPL), under our methodology for adjusting reported pension data, was \$9.2 million. This liability is equal to 0.39 times and 0.36 times fiscal 2013 and fiscal 2014 operating revenues, respectively, and 1.13% of fiscal 2015 full value. The operating funds include the General Fund and Debt Service Fund.

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 statewide 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, government, and other entities across the globe, please visit Moody's on Pensions at [www.moody.com/pensions](http://www.moody.com/pensions).

#### MANAGEMENT AND GOVERNANCE

As reflected in the "A" institutional framework score, Texas school districts are largely reliant on the state funding formula and enrollment growth to increase revenues, but benefit from a high degree of flexibility to cut expenditures. District officials have demonstrated strong budget management as evidenced by a trend of surplus operations and demonstrated ability to cut expenditures. The district is governed by a seven-member Board of Trustees and the district has adopted an informal policy to maintain an unassigned General Fund balance of \$4 million.

#### KEY STATISTICS

- Assessed Value (Full Value), Fiscal 2015: \$814.7 million
- Assessed Value (Full Value) Per Capita, Fiscal 2015: \$48,228
- Median Family Income as % of US Median (2012 American Community Survey): 90.8%
- Operating Fund Balance as % of Revenues, Fiscal 2014: 22.89%
- 5-Year Dollar Change in Fund Balance as % of Revenues: -6.77%
- Cash Balance as % of Revenues, Fiscal 2014: 26.25%
- 5-Year Dollar Change in Cash Balance as % of Revenues: 0.23%
- Institutional Framework: "A"
- 5-Year Average Operating Revenues / Operating Expenditures: 0.94x
- Net Direct Debt as % of Assessed Value: 4.22%
- Net Direct Debt / Operating Revenues: 1.36x
- 3-Year Average ANPL as % of Assessed Value: 1.13%
- 3-Year Average ANPL / Operating Revenues: 0.36x

#### OBLIGOR PROFILE

Silsbee Independent School District is a political subdivision of the State of Texas (Aaa stable) located in Hardin County (GOLT Aa3), approximately 15 miles north of the City of Beaumont (GOLT Aa2). The district reported a total population of 16,892 residents as of the 2010 US Census. The district is governed by a seven-member Board of Trustees.

#### LEGAL SECURITY

The GOULT bonds are secured by a continuing and direct ad valorem tax levied on all taxable property within the district, without limitation as to rate or amount. The GOLT notes are secured by a continuing and direct ad valorem tax levied on all taxable property within the district for maintenance purposes by the district within the limits prescribed by law.

#### USE OF PROCEEDS

Proceeds from the GOULT will fund construction of new elementary school facilities. The GOLT notes will fund demolition of existing buildings.

#### 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.moody.com](http://www.moody.com) for a copy of these methodologies.

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