

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings assigns Aa3 UND/Aaa ENH to Farmersville ISD, TX's GOs**

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25 Jul 2024

New York, July 25, 2024 -- Moody's Ratings (Moody's) has assigned Aa3 underlying and Aaa enhanced ratings to Farmersville Independent School District, TX's Unlimited Tax School Building Bonds, Series 2024 in the anticipated par amount of \$27.2 million. We maintain the Aa3 issuer rating and the Aa3 rating on the district's outstanding general obligation unlimited tax (GOULT) bonds. Post-sale the district will have approximately \$98.6 million in GOULT debt outstanding.

#### RATINGS RATIONALE

The Aa3 issuer rating reflects the district's strong financial performance, with available fund balance and net cash both exceeding 45% of revenue at fiscal 2023 year-end (June 30). The district's rapid enrollment growth (5.9% three-year growth trend) will drive additional debt issuance to expand capacity at the existing campuses. Long-term liabilities are high, making up 465.4% of fiscal 2023 revenue when including the Series 2024 bonds. The district plans to issue the remaining \$70 million of authorized but unissued debt over the next several years, which will keep leverage elevated though manageable as revenue grows with tax base expansion. Adjusted fixed costs are also high for the rating category and are anticipated to grow to more than a quarter of revenue post-sale. Additional debt issuance absent corresponding tax base and revenue growth will challenge the district's credit profile.

The Aa3 underlying rating assigned to the district's GOULT bonds is the same as the district's issuer rating, based on its unlimited tax property tax pledge that is dedicated to pay debt service.

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. We currently rate the Texas Permanent School Fund Aaa.

#### RATING OUTLOOK

We do not assign outlooks to local government issuers with this amount of debt outstanding.

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

- A decline in the long-term liabilities ratio below 250% of revenue
- Successful management of enrollment growth reflected in maintenance of an available fund balance ratio of more than 40% in conjunction with future debt issuance
- Not applicable (enhanced)

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

- Sustained growth of long-term liabilities that exceed 550% of revenue
- A decline in the available fund balance or liquidity ratio below 25%
- 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 will be used for the design and construction of school buildings, purchase of land for future school sites and to pay the costs of issuance.

#### PROFILE

Farmersville Independent School District is located in Collin County (Aaa stable) in northeastern Texas, approximately 35 miles northeast of the City of Dallas (A1 stable). The district's enrollment was 2,236 in 2024.

#### REGULATORY DISCLOSURES

The principal methodology used in the underlying rating was US K-12 Public School Districts published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425431>. 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.

## METHODOLOGY

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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For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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