



New Issue: Moody's assigns A1 underlying and Aaa enhanced ratings to Graham ISD's (TX) \$4.655 million Unlimited Tax Refunding Bonds, Series 2013-A and \$25.115 million Unlimited Tax Refunding Bonds, Series 2013-B; Aaa based on Texas PSF

Global Credit Research - 14 Mar 2013

A1 rating affects \$31.7 million in outstanding debt, inclusive of current sale

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

Moody's Rating

ISSUE	UNDERLYING RATING	RATING
Unlimited Tax Refunding Bonds, Series 2013-A	A1	Aaa
Sale Amount	\$4,655,000	
Expected Sale Date	03/21/13	
Rating Description	General Obligation	
Unlimited Tax Refunding Bonds, Series 2013-B	A1	Aaa
Sale Amount	\$25,115,000	
Expected Sale Date	03/21/13	
Rating Description	General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, March 14, 2013 --Moody's Investors Service has assigned an A1 rating to Graham Independent School District's (TX) \$4,655,000 million Unlimited Tax Refunding Bonds, Series 2013-A and \$25,115,000 million Unlimited Tax Refunding Bonds, Series 2013-B. Concurrently, we have affirmed the district's \$31.7 million in outstanding parity debt. In addition to the underlying rating, we have assigned a Aaa enhanced rating to the Series 2013-A and Series 2013-B bonds provided by a guarantee of the Texas Permanent School Fund (PSF). Proceeds from the sale will be used to refunding certain maturities of the 2002 and 2007 bonds for an estimated net present value savings of 13.0% of the refunded bonds and shorten the final maturity by two years.

RATING RATIONALE - UNDERLYING

The bonds are secured by an unlimited ad valorem tax on all taxable property within the district. Assignment of the A1 rating reflects the district's moderately sized tax base with some economic concentration in oil and gas industries, healthy financial reserves, and an above average debt burden.

RATINGS RATIONALE - ENHANCED

The Aaa enhanced rating reflects Moody's assessment of the Texas Permanent School Fund's (PSF) ability to make payments on the guarantee relative to the substantial value of the fund corpus. Additional credit considerations include: the PSF's constitutionally protected corpus, the credit quality of the Texas school district G.O. debt guaranteed by the fund, an investment portfolio that provides satisfactory coverage and liquidity given our estimated probability of calls on the guarantee, and strong legal mechanics that facilitate timely reimbursement to the PSF should guarantee payments occur. For additional information on the PSF program, please see Moody's Ratings Update Report on the Texas Permanent School Fund dated September 24, 2012.

STRENGTHS:

- *Healthy reserve levels
- *Moderately sized tax base

CHALLENGES:

- *Economic concentration in oil and gas industries
- *Above average debt burden with slow payout

DETAILED CREDIT DISCUSSION

MODERATELY SIZED TAX BASE EXPERENCING SOME GROWTH WITH CONCENTRATION IN OIL AND GAS

Located in Young County (not rated) and Stephens County, the district serves the City of Graham and surrounding areas. The district is approximately 88 miles northwest of the City of Fort Worth (Aa1/STA) and 60 miles south of the City of Wichita Falls (Aa2). The district's 2013 taxable values are composed of 40.6% land, 24.2% residential, and 11.3% oil/gas and other minerals. The top ten tax payers comprise 15.1% of the total tax base for fiscal 2013 with the four of ten of the top tax payers related to oil and gas industries. We note the economic concentration in oil and gas has provided recent growth with the industry showing strength, however the local economy with limited economic diversity would be pressured by down turns in oil and gas production.

Since the national recession, the district's tax base has experienced two annual declines with the most recent a -3.8% decline in 2012, and in the following year the tax base rebounded to its highest total assessed valuation (AV). For fiscal 2013, the district's AV increased 10.4% yielding \$695.8 million in AV, which improved the five-year-average annual growth to 3.0% from 2009 to 2013. Valuations for the district have improved residentially and on oil and gas values. The district's socio-economic profile shows below average wealth levels, as indicated by the U.S Census Bureau's 2006-2010 American Community Survey. For fiscal 2013, student enrollment increased 3.5% reaching 2,569 students. As measured October 2012, Young County's unemployment rate improved to 4.7%, which remains favorable compared to the state 6.3% and nation 7.5%. The five-year-average-annual growth in enrollment has remains flat at 0.7% from fiscal 2009 to 2013. Current enrollment exceeds budgeted expectations with an expected increase in enrollment of 30 students or 1.2%. We believe favorable employment will continue to support increasing enrollment in the near term, however weakening of the oil and gas industry would pressure the district.

HEALTHY RESERVES WITH EXPECTED IMPROVEMENTS

We believe the district has demonstrated sound financial practices, which is evidenced by the maintenance of healthy reserves levels. For fiscal 2012, the district ran a \$1.1 million surplus improving fund balance to \$7.5 million or a healthy 40.0% of revenues, and the surplus was driven by conservative budgeting practices with actual ADA higher than budgeted assumptions and operating expenditures at 97% of budgeted amounts. The General Fund is primarily reliant on state aid revenues comprises 60.3% of fiscal 2012 General Fund revenues and the remaining 39.7% coming from local property taxes. The district has a historic practice of cash funding annual maintenance and replacement of capital items such as district buses each year in order to avoid large single year increases in expenditures. For fiscal 2013, the district projects a General Fund surplus between \$500,000 and \$800,000 and officials report that actual ADA exceeds the budgeted estimate by 30 students. The projected General Fund surplus for 2013 and the historic structural balance of the General Fund provide financial flexibility going forward in the case that revenues fall short of estimates or student growth exceeds expectations. We believe the district will maintain healthy fiscal reserves given the trend of conservative budgeting, growing tax base and enrollment.

ABOVE AVERAGE DEBT BURDEN WITH SLOW PAYOUT

Inclusive of the current sale, the district's direct debt burden is slightly above average at 3.6% and 4.5% overall, both expressed as percentages of fiscal 2013 AV. We note that payout of principal debt is slow at 43.7% paid in ten years, however the final maturity of the debt following the refunding will be shortened and match the useful life of the assets. The district does not have any variable rate debt or swap agreements. We believe the district's debt burden will remain manageable given with stable AV and the improving payout of principal.

WHAT COULD CHANGE THE RATING - UP

Significant tax base expansion with economic and tax base diversification

WHAT COULD CHANGE THE RATING - DOWN

Contraction of tax base with declines in oil, gas and mineral values

Deterioration of General Fund reserves

KEY STATISTICS

2012-2013 Enrollment: 2,569

FY 2013 Full valuation: \$695.8 million

FY 2013 Full value per capita: \$48,896

2006-2010 ACS Per Capita Income: \$26,561 (106.8% of state; 97.2% of U.S.)

2006-2010 ACS Median Family Income: \$52,642 (90.5% of state; 83.6% of U.S.)

FY 2012 General Fund balance: \$7.5 million (40.0% of general fund revenues)

FY 2012 Unassigned General Fund balance: \$4.4 million (23.4% of general fund revenues)

Direct debt burden: 3.6%

Overall debt burden: 4.5%

Payout (10 years): 43.7%

Post sale parity debt: \$31.7 million

The principal methodology used in the underlying rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. The principal methodology used in rating the enhanced rating was Texas PSF. The Texas PSF rating was assigned based on Moody's assessment of the PSF's ability to make payments on the guarantee relative to the substantial value of the fund corpus. Additional credit factors relevant to the rating include: 1) constitutional protections for the corpus 2) strong state involvement in school districts and state aid intercept/school district takeover authority 3) coverage for potential calls on guarantee 4) size, concentration and correlation of guaranteed debt 5) issuer's management and governance 6) investment portfolio and liquidity. These attributes were compared against other issuers both within and outside of Texas PSF's core peer group and Texas PSF's ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk. Please see the Credit Policy page on www.moody.com for a copy of these methodologies.

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