MOODY'S
INVESTORS SERVICE

CREDIT OPINION
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New Issue

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East Central Independent School District, TX

New Issue: Moody's Upgrades East Central ISD, TX's GOs to Aa2; Assigns Aa2 UND/Aaa ENH to Series 2017 GO

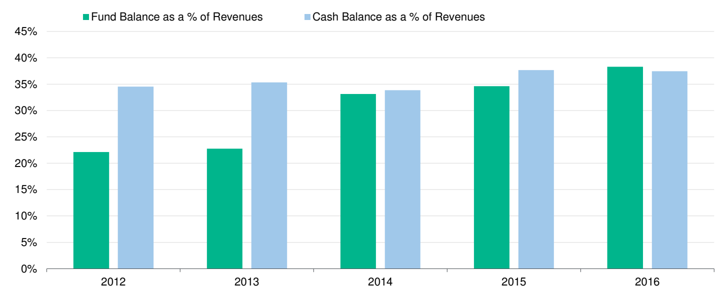
Summary Rating Rationale

Moody's Investors Service has assigned Aa2 underlying and Aaa enhanced ratings to East Central Independent School District, Texas' $43.05 million Unlimited Tax School Building Bonds, Series 2017 and upgraded to Aa2 from Aa3 the district's currently outstanding GOULT. We have also removed the positive outlook.

The upgrade to Aa2 reflects the district's sizable and growing tax base in the San Antonio (Aaa stable) metro area, robust financial position, elevated debt burden and manageable pension liability.

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 Rating Update Report on the Texas Permanent School Fund dated January 27, 2017.

Exhibit 1
Trend of Reserve Growth a Key Factor in Rating Upgrade



Source: Audited financial statements

Credit Strengths

» Growing tax base with favorably proximity to employment opportunities in the San Antonio metro area

» Strong and growing financial reserves

Credit Challenges

» Elevated debt burden

» Below average residential wealth levels for the rating category

Rating Outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» Significant tax base expansion and strengthened wealth levels

» Ongoing surplus operations contributing to continued reserve growth

Factors that Could Lead to a Downgrade

» Tax base contraction

» Deterioration of reserves

» Significant debt issuance without offsetting tax base growth

Key Indicators

Exhibit 2

East Central Independent School District, TX	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 1,910,324	$ 2,043,910	$ 2,410,864	$ 2,591,639	$ 2,996,981
Full Value Per Capita	$ 41,187	$ 44,105	$ 50,997	$ 53,918	$ 59,912
Median Family Income (% of US Median)	91.4%	91.2%	92.8%	91.8%	91.8%
Finances					
Operating Revenue ($000)	$ 72,208	$ 76,314	$ 83,491	$ 83,847	$ 91,602
Fund Balance as a % of Revenues	22.1%	22.8%	33.1%	34.6%	38.3%
Cash Balance as a % of Revenues	34.5%	35.3%	33.8%	37.7%	37.5%
Debt/Pensions					
Net Direct Debt ($000)	$ 51,851	$ 46,781	$ 46,299	$ 48,804	$ 76,926
Net Direct Debt / Operating Revenues (x)	0.7x	0.6x	0.6x	0.6x	0.8x
Net Direct Debt / Full Value (%)	2.7%	2.3%	1.9%	1.9%	2.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.4x	0.4x	0.4x	0.5x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.7%	1.5%	1.3%	1.5%	1.8%

Source: Audited financial statements; Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Growing Tax Base in San Antonio Metro Area

The district's tax base will grow moderately over the near term given ongoing residential development and expected commercial growth. East Central ISD is located in Bexar County (Aaa stable), adjacent to and encompassing a small portion of the southeast section of the City of San Antonio (Aaa stable) as well as the cities of China Grove and Elmendorf. Favorable proximity to the San Antonio employment base resulted in the district's development as a bedroom community. Just under half of the district's tax base consists of residential properties. Development of additional subdivisions in the northern portion of the district near the site of the future elementary school is currently underway, and district management reports that there is additional room to grow. HOLT CAT, a major district taxpayer, is constructing a new headquarters building that is expected to be completed by the end of 2017. FY 2017 assessed value (AV) is $3.4 billion, up 12.5% over the prior year. The five-year average annual change in the AV is strong at 12%, adding over $1 billion in value over that period. Taxpayer concentration is moderate with the top ten accounting for 15% of FY 2017 AV.

The district's residential income levels are somewhat below average for the rating category. The median family income is 92% of the US median based on the 2015 American Community Survey estimates. Unemployment within the county is low at 4% as of March 2017 compared with 5% for the state and 4.6% for the US. The district's enrollment has increased at a healthy average annual rate 1.3% over the past five years to 10,071 students in 2017. Management expects the current pace of growth to continue over the near term.

Financial Operations and Reserves: Multi-Year Trend of Surpluses and Reserve Growth

The district will maintain healthy reserves given strong financial management practices and historical results relative to conservative budgets. The district's reserves have almost doubled over the last five years due to sizeable surpluses despite significant capital outlays. The FY 2016 available General Fund balance totaled a healthy $28.9 million or 35% of General Fund revenues. The year ended with a $5.2 million surplus, beating previous expectations of $1 million. The available operating fund balance, which includes the General and the Debt Service Funds, was $35.1 million as of fiscal year end 2016, a strong 38% of operating revenues.

Approximately $10 million in capital outlay is planned over the next 3-4 years, which is in line with the last few years. Management expects the reserves to remain stable if not grow. Officials report favorable year-to-date performance in FY 2017 and are projecting another surplus. Management expects to adopt a balanced budget for FY 2018. The district maintains reserves well above the formal board policy to maintain 2.5 months of reserves with no plans to spend down.

LIQUIDITY

Cash and investments in the operating funds totaled $34.3 million at the close of fiscal 2016, a strong 38% of operating revenues. Liquidity will grow concurrently with reserves.

Debt and Pensions: Elevated Debt Burden; Manageable Pension

The district's debt burden will remain elevated over the near term, mitigated to some extent by tax base growth. Post-sale, the district will have $142.3 million in GOULT outstanding with no remaining authorized but unissued debt. The district expects to receive 6.82% of annual debt service requirements from the state going forward, a decrease from the average of 23% over the last few years resulting from tax base growth disproportionate to enrollment growth. Net of expected state support, the debt burden is elevated at approximately 3.9% of FY 2017 AV. The actual amount of state funding for debt service may differ from year to year. Without state support, the debt burden is slightly higher at 4.2% of FY 2017. The district does not have any additional new money issuance plans over the immediate term, but may return to voters over the next 3-5 years for additional bond authorization depending on growth.

DEBT STRUCTURE

All of the district's debt is fixed rate. Principal amortization is relatively slow with 44% of principal retired in ten years. The debt fully matures in 2042.

DEBT-RELATED DERIVATIVES

The district is not party to any debt-related derivatives.

PENSIONS AND OPEB

Budgetary pressure due to the district's participation in the Texas Teachers Retirement System (TRS) pension plan will likely remain manageable in the near term. The state makes most of the employer pension contributions on behalf of the district annually. Moody's three-year average adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $54.9 million, or a modest 0.6 times FY 2016 operating revenues and 1.6% of the FY 2017 AV. Fixed costs, including debt service, pension and OPEB contributions, represent a manageable 12% of FY 2016 operating revenues.

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 liability information, but to improve comparability with other rated entities.

Management and Governance

The district's consistent operating surpluses and healthy reserves reflect careful budgeting and prudent financial management. The district is governed by an elected seven-member Board of Trustees serving staggered three-year terms.

Texas School Districts have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property taxes, one of the sector's major revenue sources is subject to a cap of $10.40 per 1,000 of assessed value, which can be overriden at the local level to $11.70 (with voter approval). The voter approved levy override provides for additional revenue-raising flexibility. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Texas is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Legal Security

The bonds are secured by a direct continuing ad valorem tax levied on all property within the district without limitation as to rate or amount.

Use of Proceeds

Proceeds will be used to (1) design, construct, renovate, improve, acquire and equip school buildings in the district (and any necessary or related removal of existing facilities); and (2) pay for bond issuance costs.

Obligor Profile

East Central ISD is located in Bexar County (Aaa stable), located adjacent to and encompassing a small portion of the southeast section of the City of San Antonio (Aaa stable) as well as the cities China Grove and Elmendorf. Enrollment for the 2016-17 school year was 10,071.

Methodology

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in December 2016. 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 December 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 3

East Central Independent School District, TX

Issue	Rating
Unlimited Tax School Building Bonds, Series 2017	Aa2
Rating Type	Underlying LT
Sale Amount	$43,050,000
Expected Sale Date	06/22/2017
Rating Description	General Obligation
Unlimited Tax School Building Bonds, Series 2017	Aaa

Rating Type	Enhanced LT
Sale Amount	$43,050,000
Expected Sale Date	06/22/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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