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Rating Action: Moody's assigns Aa1 UND/Aaa ENH to Klein ISD, TX's GOULT bonds, Ser. 2021; stable outlook

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New York, October 12, 2021 -- Moody's Investors Service has assigned Aa1 underlying and Aaa enhanced ratings to Klein Independent School District, TX's \$40.5 million Unlimited Tax Refunding Bonds, Series 2021. Moody's maintains the district's Aa1 issuer rating and the Aa1 general obligation unlimited tax (GOULT) underlying rating. The issuer rating reflects the district's ability to repay debt and debt-like obligations without consideration of any pledge, security or structural features. The district's total GOULT debt outstanding will be \$1 billion post-sale. The outlook is stable.

RATINGS RATIONALE

The Aa1 issuer rating incorporates healthy financial performance with strong reserves, a sound economy and a three year trend of stable enrollment. The rating also reflects leverage metrics that manageable but are above the state and national Aa1 medians.

The Aa1 underlying rating assigned to the GOULT bonds is equivalent to the Aa1 issuer rating based on the pledge of an unlimited property tax that is dedicated for debt service and levied upon all taxable property within the district.

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. The Texas Permanent School Fund is rated Aaa and has a stable outlook.

RATING OUTLOOK

The stable outlook reflects the expectation that the district will continue to budget conservatively and maintain a stable financial position with healthy reserves. In addition, modest tax base growth should continue from some new development, which will provide additional revenue to finance any future debt plans.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Improved enrollment trend
- Strengthening of the full value per capita or resident income levels
- Significant decrease in leverage
- Not applicable (enhanced)

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Weakening of enrollment trend
- Erosion of economic indicators
- Significant decline in fund balance or cash
- Increase in long-term liabilities or fixed costs ratios
- Rating downgrade of the Texas Permanent School Fund (enhanced)

LEGAL SECURITY

The bonds are secured by a dedicated 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 refund a portion of the outstanding Series 2012A and 2012B bonds for net present value savings with no extension of final maturity.

PROFILE

Klein ISD is in Harris County (Aaa stable) approximately 30 miles north of Houston's (Aa3 stable) central business district. Enrollment as of August 31, 2021 was approximately 53,100. Facilities consist of 32 elementary schools, 10 intermediate schools and five high schools.

METHODOLOGY

The principal methodology used in the underlying rating was US K-12 Public School Districts Methodology published in January 2021 and available at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1202421. 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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