

Rating Action: Moody's assigns Aa2 Und./Aa1 Enh. to Lexington CSD 1, SC's GO bonds

10 Jun 2020

Outlook stable

New York, June 10, 2020 -- Moody's Investors Service has assigned Aa2 underlying and Aa1 enhanced ratings to Lexington County School District 1, South Carolina's \$86.8 million General Obligation Refunding Bonds, Series 2020B (Taxable Series). Moody's maintains a Aa2 rating on the district's outstanding general obligation unlimited tax debt. The district has approximately \$506 million of GOULT debt outstanding. The outlook is stable.

RATINGS RATIONALE

The Aa2 underlying rating reflects the district's sizeable and growing tax base that is fueled by continued population growth and new development activity. The district's strong financial position also supports the rating, with consistent surplus operations leading to a steady improvement in fund balance and liquidity. The district's debt burden is above average and will grow further in the coming years due substantial capital borrowing plans. The district's pension burden is also above average.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action but could affect the district's fiscal 2021 budget which begins July 1. The district depends on state aid for most of its operating revenue. The State of South Carolina (Aaa stable) is highly reliant on income and sales tax revenues, which are particularly exposed to the current coronavirus-driven downturn. While no cuts to school aid have been made to date, significant revenue declines could lead the state to implement mid-year cuts - a move that would require the district to cut its own budget or spend down reserves. The situation surrounding coronavirus is rapidly evolving and the longer-term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the school district changes, we will update the rating and/or outlook at that time.

The Aa1 enhanced rating is based on the additional security provided by the South Carolina School District Credit Enhancement Program (SCSDCEP). As the SCSDCEP is a state-backed program, the enhanced rating is notched off the State of South Carolina's rating (Aaa stable). The enhanced rating carries the same outlook as the state, which is stable.

RATING OUTLOOK

The stable outlook on the underlying rating reflects the expectation that the district's financial position will remain in line with the rating category over the next 12 to 18 months despite potential cuts to state aid - a challenge that is mitigated by the district's prudent financial management and sound reserves.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Significant reduction in debt and pension burdens
- Sustained improvement in fund balance and liquidity

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Trend of operating deficits and material weakening of fund balance or liquidity
- Significant increase in debt relative to tax base and operating revenues
- Downgrade of the state's rating (enhanced rating only)

LEGAL SECURITY

The general obligation bonds are secured by the district's unlimited property tax pledge.

Additional security is provided by the South Carolina School District Credit Enhancement Program (SCSDCEP), which enhances the timeliness of debt service payments through county and state government coordination and is backed by sizeable annual state appropriation under the state's Education Finance Act.

USE OF PROCEEDS

The Series 2020B bonds will refund the district's Series 2013B bonds maturing in 2024 through 2038 for interest savings.

PROFILE

Lexington County School District 1 is the largest of the five school districts in Lexington County (Aaa stable) in the Midlands Region of South Carolina, located across the Congaree River from the City of Columbia (Aa1 stable). The district offers comprehensive educational programs for students in prekindergarten through the twelfth grade. Enrollment for the 2019-2020 school year is estimated at 27,354 students.

METHODOLOGY

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in September 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1191097. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings published in December 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1067422. 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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