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INVESTORS SERVICE

Rating Action: Moody's assigns Aa1 UND/Aaa ENH to McKinney ISD, TX's GOULT bonds

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New York, July 11, 2022 -- Moody's Investors Service has assigned Aa1 underlying and Aaa enhanced ratings to McKinney Independent School District, TX's \$108.0 million Unlimited Tax School Building and Refunding Bonds, Series 2022. 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 outstanding GOULT debt will total \$537.3 million post-sale. The underlying rating outlook is stable.

RATINGS RATIONALE

The Aa1 issuer rating incorporates a growing economy with above average income and wealth levels, and a recent trend of modestly declining enrollment during the pandemic. The rating also incorporates strong financial performance and growing but manageable leverage metrics that are on par with state and national peers.

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. Moody's currently rates the Texas Permanent School Fund Aaa.

RATING OUTLOOK

The stable outlook on the district's underlying rating reflects the expectation that management will continue to budget conservatively and maintain healthy reserves. In addition, modest tax base growth should continue over the next few years from new development, which will provide additional revenue to finance future debt plans.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

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

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained weakening of enrollment trend
- Erosion of economic indicators
- Material decline in fund balance or cash
- Material increase in leverage metrics
- Rating downgrade of the Texas Permanent School Fund (enhanced)

LEGAL SECURITY

The Series 2022 bonds are payable from 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

The Series 2022 bonds are the second issuance under a \$275 million authorization approved by voters in May 2021 that will finance a variety of district-wide improvements, including the completion of a new elementary school, elementary and middle school renovations, technology improvements, fine arts and athletic upgrades, new school buses, and security upgrades. A portion of the proceeds will fully refund the outstanding Unlimited Tax School Building and Refunding Bonds, Series 2012 for net present value savings with no extension of final maturity.

PROFILE

McKinney Independent School District is in Collin County (Aaa stable), 30 miles north of the City of Dallas (A1 stable) and serves the City of McKinney (Aaa stable). The district provides public K-12 education to approximately 23,500 students.

METHODOLOGY

The principal methodology used in the underlying rating was US K-12 Public School Districts Methodology published in January 2021 and available at <https://ratings.moody.com/api/rmc-documents/70054>. 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.moody.com/api/rmc-documents/386295>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.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 on <https://ratings.moody.com/rating-definitions>.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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