

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's downgrades to A1 the issuer rating and to A2 the lease rating on Hillsborough Co. School District, FL; A2 special tax rating affirmed

19 Jan 2021

Outlook negative

New York, January 19, 2021 -- Moody's Investors Service has downgraded to A1 from Aa2 the issuer rating on Hillsborough County School District, FL. Concurrently, we downgraded to A2 from Aa3 the rating on the district's Certificates of Participation (COPs), and affirmed the A2 rating on the sales tax bonds. The outlook on the special tax rating has been revised to negative from stable. The outlook on the issuer rating and the lease ratings remains negative.

RATINGS RATIONALE

The downgrade on the issuer rating to A1 reflects the district's narrowing cash balance which could approach zero before fiscal 2021 year end. The downgrade also reflects narrowing fund balance, due to ongoing structural imbalance, which is projected to decline further in fiscal 2021. Governance is a driver as prior administrations have attempted and planned to correct structural imbalance, but ultimately failed. Management, including the superintendent and CFO, has changed in the last year. The credit profile is balanced by a large and diverse tax base that includes Tampa (Issuer Rating Aa1 stable) and its suburbs and a manageable debt and pension profile.

The A2 COPs rating is one notch below the issuer rating due to appropriation risk.

The A2 special tax rating reflects adequate debt service coverage by sales tax revenues and no additional debt plans.

RATING OUTLOOK

The negative outlook reflects the ongoing structural imbalance, which we expect will be difficult to remediate given the failure of prior attempts. The negative outlook also reflects additional cash and reserve declines in 2021. The negative rating on the sales tax bonds reflects the declines in coverage due to coronavirus as well as the current negative pressure on the issuer rating, given that special tax ratings do not typically exceed the issuer rating.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Improved and stabilized cash and fund balances reserves
- Consistent structurally balanced budgets
- Upgrade of issuer rating (COP and sales tax ratings only)
- Substantial improvement in pledged revenues (sales tax rating only)

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Ongoing declines in cash and fund balance reserves
- Consistent structurally imbalanced budgets
- Downgrade of issuer rating (COP and sales tax ratings only)
- Prolonged declines in pledged revenues beyond what is currently expected (sales tax rating only)

LEGAL SECURITY

The issuer rating is equivalent to the general obligation, full faith and credit rating. There is no debt outstanding

with this security.

The COPs are secured by undivided proportionate interests in basic rental payments pursuant to the Master Lease and subsequent supplemental lease agreements. Unless the district gives notice of its intent not to appropriate, the Superintendent is required to include funds necessary to make lease payments for all or none of the projects under the master lease in the district's tentative budget. In practice, lease payments are typically paid from a portion of the proceeds of the district's 1.5 mill discretionary capital millage outlay levy.

The sales tax bonds are secured by the district's share of a county-wide half-cent infrastructure sales surtax, approved by the voters for 30 years commencing December 1, 1996 to December 1, 2026, which coincides with the final maturity of the bonds.

PROFILE

Hillsborough County School District is located in Southwest Florida and has a population of 1.4 million. The district is the seventh largest school district in the country by enrollment, which totaled 218,593 in 2020.

METHODOLOGY

The principal methodology used in the issuer rating was US Local Government General Obligation Debt published in July 2020 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1230443. The principal methodology used in the lease ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1102364. The principal methodology used in the special tax rating was US Public Finance Special Tax Methodology published in July 2017 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1077147. Alternatively, please see the Rating Methodologies page on www.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 at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004

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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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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1243406.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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