

MOODY'S

INVESTORS SERVICE

Rating Action: **Moody's affirms San Leon MUD, TX's GOULT at A3**

19 Feb 2019

New York, February 19, 2019 -- Moody's Investors Service has affirmed San Leon Municipal Utility District's, TX general obligation unlimited tax (GOULT) rating at A3. The affirmation affects \$3 million in outstanding debt. The district has an additional \$8.6 million in debt not rated by Moody's but is considered in our analysis.

RATINGS RATIONALE

The affirmation reflects the expectation that the district's currently weak reserve levels will significantly increase in the current fiscal year, and be more consistent with the current rating category. The rating also reflects the district's moderately sized and growing tax base off the Galveston Bay. The rating also reflects a manageable direct debt burden with additional debt issuance plans and relatively low resident wealth indices.

RATING OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Trend of surpluses resulting in increased reserves
- Significant tax base expansion
- Moderation of debt burden

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Continued trend of deficits that lead to reduction of reserves
- Significant additional debt issuance without offsetting tax base growth
- Year-end fiscal 2019 results that are below projections

LEGAL SECURITY

Principal and interest on the bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the district, which under Texas law is not limited as to rate or amount.

USE OF PROCEEDS

Not applicable

PROFILE

San Leon Municipal Utility District, TX lies within the extraterritorial jurisdiction of Texas City (A1) and encompasses approximately 3,200 acres, serving a population of 9,142. The district provides water and wastewater service, solid waste collection, and contracts with San Leon Volunteer Fire Department to provide fire protection and emergency services.

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain

regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody's.com.

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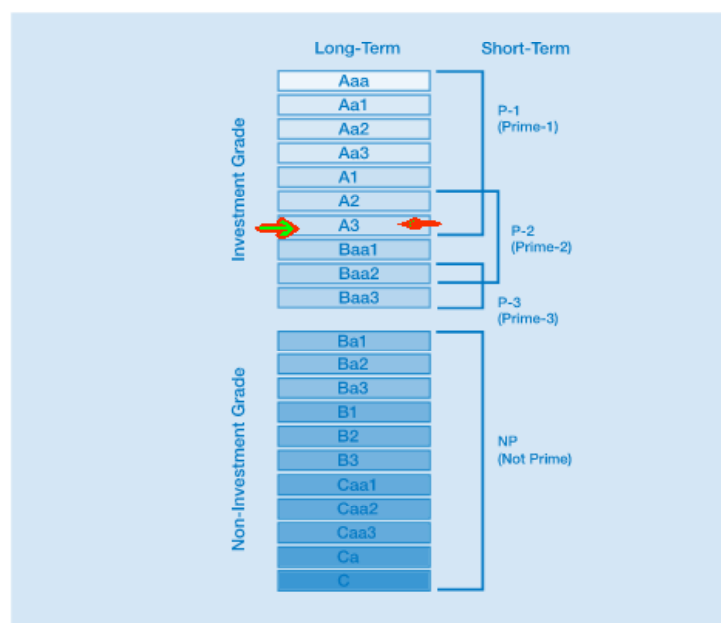
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Rating Scale and Definitions

Moody's Rating Scale

The following is a ranking (from highest to lowest) of Moody's long-term and short-term categories. The indicated relationship between long-term and short-term ratings is approximate and may not necessarily apply in all situations.



Moody's Long-Term Rating Definitions

Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default.

Aaa Obligations rated Aaa are judged to be of the highest quality, with minimal risk.

Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A Obligations rated A are considered upper-medium-grade and are subject to low credit risk.

A3 →

Baa Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess speculative characteristics.

Ba Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.

B Obligations rated B are considered speculative and are subject to high credit risk.

Caa Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.

Ca Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery in principal and interest.

C Obligations rated C are the lowest-rated class of bonds and are typically in default, with little prospect for recovery of principal and interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.