

Rating Action: Moody's assigns A1 to McKenzie County PSD 1, ND's GO Bonds

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New York, June 06, 2019 -- Moody's Investors Service has assigned an A1 rating to McKenzie County Public School District 1, ND's \$25 million General Obligation School Building Bonds, Series 2019A. Concurrently, Moody's maintains the A1 on the district's outstanding long-term general obligation unlimited tax (GOULT) debt and maintains the A2 on the district's outstanding lease revenue debt. Following the sale, the district will have \$66 million of outstanding GOULT debt, which includes a \$10 million state school construction loan which the district will issue later in 2019. Also, the district has \$6.9 million of outstanding lease revenue debt.

RATINGS RATIONALE

The A1 GOULT rating reflects the district's rapidly expanding economy driven by energy industry growth, significant tax base concentration, improved financial operations supported by healthy reserves, and an above average debt and pension burden.

The A2 lease revenue rating reflects the annual risk of non-appropriation and the essentiality of the financed project, a new elementary school. The lease revenue rating also reflects the satisfactory legal covenants and underlying characteristics of the district.

RATING OUTLOOK

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

FACTORS THAT COULD LEAD TO AN UPGRADE

- Diversification of tax base including reduction in economic and taxpayer concentration
- Moderation of debt burden

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Draws in reserves leading to a weakening of the district's financial position
- Downturn in the energy industry that leads to decline in economic activity in the region and a reversal of enrollment growth trends
- Growth in debt burden

LEGAL SECURITY

Debt service on the current series of bonds is secured by the district's general obligation unlimited tax pledge which is backed by the district's full faith, credit, and taxing power.

USE OF PROCEEDS

The proceeds of the 2019 bonds will finance the construction of a new elementary school building.

PROFILE

McKenzie County School District is a kindergarten through twelfth grade public school district that covers approximately 1,679 square miles with a 2018/19 enrollment of 1,802. The district is based in the City of Watford City, the county seat of McKenzie County (Aa3), which is heavily dependent on natural resource based economies such as ranching, farming, tourism, and oil exploration.

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.com for a copy of this methodology.

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