

# RatingsDirect®

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## Summary:

# Boone Community School District, Iowa; General Obligation

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## Table Of Contents

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Rating Action

Stable Outlook

Credit Opinion

Related Research

## Summary:

# Boone Community School District, Iowa; General Obligation

### Credit Profile

US\$6.115 mil GO sch rfdg bnds ser 2022 due 05/01/2032

<i>Long Term Rating</i>	A+/Stable	New
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Boone Comnty Sch Dist GO

<i>Long Term Rating</i>	A+/Stable	Affirmed
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Boone Comnty Sch Dist GO sch rfdg bnds ser 2021-B due 05/01/2036

<i>Long Term Rating</i>	A+/Stable	Affirmed
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Boone Comnty Sch Dist GO (AGM)

<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

## Rating Action

S&P Global Ratings assigned its 'A+' long-term rating to Boone Community School District (CSD), Iowa's approximately \$6.1 million series 2022 general obligation (GO) school refunding bonds. At the same time, we affirmed our 'A+' long-term rating and underlying rating (SPUR) on the district's GO debt outstanding. The outlook is stable.

The district's ad valorem property tax pledge, without limitation as to rate or amount, secures the series 2022 bonds and GO debt outstanding. Bond proceeds will be used to refund a portion of the district's debt outstanding for interest rate savings.

### Credit overview

Boone CSD, located in central Iowa approximately 40 miles northwest of Des Moines, Iowa, benefits from a stable financial position supported by modestly increasing general fund revenues which we expect to continue and help offset a trend of modestly declining enrollment although we understand that pre-school fiscal 2022 registration is full with a waiting list. While the adopted fiscal 2022 general fund budget shows a small deficit, we anticipate that reserves will remain very strong and in line with the minimum fund balance target of at least 15% of operating expenditures. As a result, we anticipate rating stability over the outlook horizon.

The rating also reflects our opinion of the district's:

- Stable local economy and access to larger employment bases in the Des Moines metropolitan area and nearby Ames, home to Iowa State University;
- Steady growth in market value per capita which we view as strong; and
- Trend of operating surpluses coupled with very strong available reserves.
- Offsetting the above strengths is the district's debt burden as a percentage of market value, which we view as

moderate, and its steadily declining enrollment.

### **Environmental, social, and governance**

The district engages in multiple cybersecurity best practices, including periodic user training, email filters, firewalls, content filtering, backups, multifactor authentication, patching policies, and regular review of suspicious activity. We view environmental, social, and governance risks as in line with our view of the sector.

## **Stable Outlook**

### **Upside scenario**

We could take positive rating action if the economy materially improves for an extended period while other key credit factors remain stable and enrollment trends stabilize or improve.

### **Downside scenario**

We could take negative rating action if a trend of deficit operations develops or reserves meaningfully deteriorate.

## **Credit Opinion**

### **Stable local economy supports steady growth to market value while enrollment weakens**

The district is primarily residential and spans over 66 square miles, including the city of Boone with the tax base primarily residential at roughly 70% of total valuations. The local economy is supported by the city's role as a principal trading center and the surrounding agricultural area. District residents have access to larger employment bases in Ames and Des Moines, but the local employment base is sizable in our view and includes the Union Pacific Railroad with approximately 400 employees. Management reports of continued growth, with a new recreation center underway in the City of Boone. While the 10 largest taxpayers are very diverse in our opinion, the largest taxpayer in the district is the Dakota Access pipeline. Given the unlimited tax GO security pledge, should the pipeline's valuation decrease or be entirely removed, debt service could be covered by the remaining tax base and we view this as a neutral credit factor.

For S&P Global Economics' latest forecast, see "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," published Nov. 29, 2021, on RatingsDirect.

Management projects that enrollment will stabilize based in part on healthy preschool and kindergarten enrollment expectation for the upcoming school year after a temporary decline in fiscal 2021 primarily due to the pandemic when several families opted to participate in the home school assistance program. Enrollment-based state aid accounted for 59% of revenue in fiscal 2021 with local sources accounting for 34% of general fund revenue for the same period.

### **Very strong reserves supported by structurally balanced operations likely to continue**

Following four consecutive years of better than break-even operating results, management expects that fiscal 2022 will end with a small deficit of \$130,000, or less than 1% of budgeted expenditures.

The district posted a sizable operating surplus of \$1.1 million in fiscal 2021 and benefited from receipt of CARES Act funds, which covered COVID-19-related expenses such as nursing salaries, technology, and cleaning supplies. For

fiscal 2022, management reports that the district will likely spend \$600,000 in CARES Act funds to support a heating, ventilation, and air conditioning project (outside of the general fund) and an additional \$2.8 million in Elementary and Secondary School Emergency Relief Fund funds that are not incorporated into budget. Given the district's history of mostly surplus operations and recent allocations of significant federal relief funding, we believe that year end results will likely be better than budget and that the district will maintain an available fund balance that we view as very strong, aided as necessary by its ability to cash-reserve levy, and in compliance with its 15% fund balance policy.

**Good management practices and policies under our financial management assessment**

Highlights include comprehensive monthly budget reports to the board, multi-year financial forecasting that is updated annually, and some long-term capital planning. The district lacks a debt management policy but maintains an investment management policy. The district adheres to a formal fund balance policy of keeping 15% of revenues in general fund reserves with which we expect it to remain in compliance.

**Moderate and manageable overall debt burden with no additional debt plans**

The district's overall net debt as a percentage of market value is high compared with that of peers at 5.3%. With average amortization and no additional debt plans, we anticipate that the district's debt burden will remain manageable for the foreseeable future.

**Manageable pension and other postemployment benefit (OPEB) obligations**

State statute sets the district's contributions to Iowa Public Employees' Retirement System (IPERS), and the amounts equaled the required contribution for each of the past three fiscal years.

The district participates in:

- Iowa Public Employees' Retirement System (IPERS), a state-administered, cost-sharing, multiemployer, defined-benefit pension plan, which was, as of June 30, 2021, 100.8% funded, with a proportionate share of the net pension asset of \$690,000 million; and
- The district's total OPEB liability was \$1.3 million as of June 30, 2021.

State statute sets IPERS contributions, and the amounts equal required contributions for each of the past three fiscal years. The district's contribution to IPERS for the year ended June 20, 2021 was \$1.5 million.

Retirees and their spouses can stay on the district's health-insurance plan up to the age of 65 (with a minimum retirement age of 55), but they are responsible for paying the entire insurance premium themselves.

We expect the district's pension and OPEB obligations to remain manageable.

**Boone Community School District Key Credit Metrics**

	Characterization	Most recent	Historical information		
			2021	2020	2019
<b>Economic indicators</b>					
Population			14,291	14,449	
Median household EBI as % of U.S.	Adequate		88	84	
Per capita EBI as % of U.S.	Adequate		86	82	

## Boone Community School District Key Credit Metrics (cont.)

	Characterization	Most recent	Historical information		
			2021	2020	2019
Market value (\$000s)		1,035,289	1,019,427	963,417	924,061
Market value per capita (\$)	Strong	72,443	71,333	67,414	63,953
Top 10 taxpayers as % of taxable value	Very diverse	12.4	12.6	8.6	9.1
<b>Financial indicators</b>					
Total available reserves (\$000s)			5,690	4,787	4,090
Available reserves as % of operating expenditures	Very strong		21.8	18.8	16.5
Total government cash as % of governmental funds expenditures			48.5	40.0	51.8
Operating fund result as % of expenditures			4.3	2.6	3.3
Financial management assessment	Good				
Enrollment		1,886	1,954	1,939	1,952
<b>Debt and long-term liabilities</b>					
Overall net debt as % of market value	Moderate	5.2	2.9	3.3	3.7
Overall net debt per capita (\$)	Moderate	3,807	2,045	2,233	2,375
Debt service as % of governmental funds noncapital expenditures	Moderate		10.8	28.0	28.0
Direct debt 10-year amortization (%)	Average	59			
Required pension contribution as % of governmental funds expenditures			4.5	3.8	4.9
OPEB actual contribution as % of governmental funds expenditures			0.4	0.3	0.3
Minimum funding progress, largest pension plan (%)			117.3	84.8	87.4

EBI--Effective buying income. OPEB--Other postemployment benefits.

## Related Research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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