S&P Global
Ratings

RatingsDirect®

Summary:

Clinton Community School District, Iowa; Sales Tax

Primary Credit Analyst:
Blake E Yocom, Chicago + 1 (312) 233 7056; blake.yocom@spglobal.com

Secondary Contact:
David H Smith, Chicago + 1 (312) 233 7029; david.smith@spglobal.com

Table Of Contents

Summary:

Clinton Community School District, Iowa; Sales Tax

Credit Profile		
US$15.0 mil sch infrastructure sales, svcrs and use tax rev bnds ser 2022 due 07/01/2042		
Long Term Rating	A/Stable	New
Clinton Comnty Sch Dist sales tax rev bnds		
Long Term Rating	A/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'A' long-term rating to Clinton Community School District (CSD), Iowa's anticipated $15 million series 2022 school infrastructure sales, services, and use tax revenue bonds. At the same time, we affirmed our 'A' rating on the district's parity debt. The outlook is stable.

A first-lien pledge of annual state-collected retail sales and service tax revenue, for school infrastructure purposes, secures the bonds. The rating reflects our criteria, titled "Priority-Lien Tax Revenue Debt," published Oct. 22, 2018, on RatingsDirect, which factors in, among other things, pledged revenue strength and stability and the general credit quality of the district where taxes are collected and distributed, also known as the obligor's creditworthiness. A weakening in either component could weaken the priority-lien rating.

Clinton CSD intends to use series 2022 bond proceeds to finance various capital improvements, including continuation of its high school renovation project.

Credit overview

Despite a long-term declining enrollment trend, pledged revenue has increased year over year and, in our view, the district should maintain at least adequate maximum annual debt service (MADS) coverage. The stable outlook reflects S&P Global Ratings' expectation that pledged revenue will provide sufficient coverage and will be less prone to significant fluctuations during normal economic cycles, supported by Iowa's very strong economic base.

Key credit considerations include our opinion of the district's:

- Very strong economic fundamentals, as reflected by a statewide revenue base and distributions to districts based on certified enrollment;
- Adequate coverage of 1.35x, a 1.25x additional bonds test (ABT), and a debt service reserve fund (DSRF); and
- Low-to-very low revenue volatility because of the funding mechanism, as demonstrated by growth in statewide sales tax revenue.

Environmental, social, and governance

Long-term demographic trends may emerge as a social risk insofar as it affects pledged revenue given that pledged revenue is based on enrollment. We also analyzed its environmental and governance risks and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if statewide sales tax collections were to decrease, coupled with enrollment falling to such a degree that year-over-year pledged revenue also deteriorates, leading to lower-than-expected debt service coverage (DSC) payments. We could also do so if the obligor's general creditworthiness were to weaken by more than one notch.

Upside scenario

We could raise the rating if we saw stronger bond provisions and sustained stronger coverage as a result of stabilized enrollment, while all other credit characteristics improved or were unchanged.

Credit Opinion

The Iowa Secure an Advanced Vision for Education program

In May 2008, the Iowa Legislature passed the Secure an Advanced Vision for Education (SAVE) program. Effective July 1, 2008, it replaced the school infrastructure local option tax. SAVE establishes a statewide one-cent sales tax for infrastructure, collected through Dec. 31, 2029, and now extended to Jan. 1, 2051. SAVE requires the deposit of 2.1% of money collected through the sales tax, before distribution to individual school districts, into Iowa's property tax equity relief fund, which provides property tax relief through the general school aid formula, particularly to districts with additional levy rates higher than the statewide average. The district deposits the remainder of the one-cent sales tax revenue into the state-held SAVE fund, which the Iowa Department of Revenue distributes to individual school districts on a per-pupil basis.

The per-pupil calculation compares a district's actual, in-district certified enrollment with total statewide enrollment. Districts receive 95% of the state's projected taxes in monthly payments, with a final payment in November; this payment reconciles the difference between actual and estimated receipts. After 2013, all 99 counties made the transition to the statewide SAVE program. All districts receive the same level of per-pupil revenue, most recently $1,112 for fiscal year 2021 and $1,116 for fiscal 2022.

Districts can use their individual share of SAVE revenue for school infrastructure purposes or property tax relief; they cannot use funds for general operations. The CSD's electorate has adopted a broadly written revenue purpose statement that directs the school board to use sales tax revenue first for sales tax debt service, and then for purposes the SAVE Act permits, including property tax relief. Absent a revenue purpose statement, state statutes require districts to use SAVE funds for property tax relief first, essentially subordinating revenue bonds.

Recent legislation extends the 2029 sunset on the tax to 2051. The other significant change was an increase to the

initial 2.1% set-aside of sales tax revenue into the property tax equity relief fund, which could potentially increase by 1% annually should SAVE revenue increase by 2% or more, capped at 30%. Two-thirds of revenue in the property tax relief fund would benefit districts above the statewide average, with the remaining one-third raising foundation levels and benefiting all districts equitably.

Economic fundamentals: Very strong

For SAVE-backed revenue bond transactions, we have assessed the state economy in our analysis due to the collection of sales tax revenue at the state level, coupled with a specific distribution formula for each district.

Overall, Iowa's population estimate of 3.2 million in 2020 increased by a slower rate than that of the nation; the state's population is older. Iowa's per capita personal income has remained somewhat under national levels historically. The state regained its pre-Great Recession employment in mid-2013, and the unemployment rate remained among the nation's lowest at 2.7% in 2019. Iowa's unemployment rate through the recent pandemic-related recession stayed below the nation's rate at 5.3% in 2020. We think that although employment growth might be slightly slower than that of the nation in the next few years, the area's slower population and labor force growth will allow the state's unemployment rate to remain low compared with the national level.

Iowa remains more concentrated in agriculture and manufacturing than the nation, particularly manufacturing related to agricultural processing. IHS Markit estimates two of every nine jobs in the state are agricultural. Other nonfarm employment sectors, in general, show similar concentration to that of the nation, with below-average concentration in professional and business services. Iowa is home to many financial and insurance companies; it has the nation's highest concentration of insurance and financial services employment, according to IHS.

Volatility: Low to very low

We assess revenue volatility to determine the likelihood of revenue availability during different economic cycles. We have two levels of volatility assessments: macro and micro.

Our macro volatility assessment begins with an assessment of the historical volatility of economic activity taxed, including an analysis of societal, demographic, political, and other factors that could greatly affect these activities.

We have analyzed revenue distribution to schools from 2008 to 2021, the start of the SAVE program; we note less revenue volatility compared with national trends due to the formula used for distributing revenue to districts, reflecting the percentage of each district's actual enrollment compared with total state enrollment. Statewide disbursements to schools have generally increased since SAVE's inception in 2008, apart from a 1.0% decrease in fiscal 2009 and a 1.2% decrease in fiscal 2021.

Fiscal 2021 actual statewide disbursements were $544.8 million, or $1,112 per pupil. They rose by a net $100 million, or 25%, during the previous 10 years compared with statewide enrollment, which has been relatively flat and increased by only a net 16,600, or 3.5%, in the same period. Therefore, revenue from Iowa's distribution formula has seen lower volatility than the nationwide average.

On a micro-volatility level, there is no external influence that we think weakens the macro assessment of low volatility. Under the funding formula, even districts with decreasing enrollment, if not significant, have experienced flat-to-growing annual year-over-year revenue; therefore, these districts report stable DSC.

DSC and liquidity: Adequate

The stipulation that SAVE revenue cannot be used to support general operations typically results in weak-to-adequate DSC. Districts tend to structure bonds with weak ABTs, typically in the range of 1.2x-1.3x DSC, providing greater ability for them to issue bonds and fund capital projects.

A DSRF, funded at the standard three-prong test (lowest of MADS, 10% of principal, or 125% of average annual debt service), supports the series 2022 bonds.

Clinton CSD's ABT is an adequate 1.25x. Most districts eventually issue additional debt to the ABT's fullest extent, leading to adequate DSC. We factor this into our analysis and our expectation of future DSC and anticipate the district's DSC will remain at least adequate.

Post issuance, the district will have $34.8 million in sales tax revenue bonds outstanding. Using pledged revenue of approximately $4 million in fiscal 2021, historical coverage was approximately 1.33x. Using projected per-pupil revenue of $1,116 for fiscal 2022 (and stable enrollment of 3,612), or approximately $4 million, and MADS of $3 million in 2024, MADS coverage is approximately 1.35x.

We applied two stress tests to assess DSC under scenarios of enrollment and sales tax revenue declines. Using the statewide per-pupil revenue estimate of $1,116 for fiscal 2022, we determined that the district would still have 1.0x MADS coverage with 2,715 pupils, or a loss of 897 (a 25% decline). In addition, if enrollment remains constant at 3,612, we calculate per-pupil revenues could decline to $839, and the district would still have 1.0x MADS coverage.

During the past 10 years, enrollment declined by 354, or nearly 9%. For the October 2021 count, used for fiscal 2023 revenue collections, certified enrollment was 3,612. Although enrollment has declined over the past decade, management projects it will stabilize over upcoming years.

In our view, revenue distribution based on enrollment, in most cases, lends stability to DSC and liquidity. Districts can sustain a modest degree of enrollment decreases and still generate revenue growth because of historically increasing per-pupil revenue. We expect DSC will likely remain stable but adequate. The district may issue additional debt within the next year depending on the construction timeline.

Obligor linkage: Close

Under our criteria, the priority-lien rating links with the obligor's general creditworthiness because we view overall creditworthiness as a key determinant of an obligor's ability to pay all obligations, including special tax-secured bonds. In our opinion, rated debt bond provisions are less restrictive with respect to revenue collection and distribution. The district directly receives SAVE revenue from the Iowa Department of Revenue, and it is responsible for paying debt service. In our opinion, pledged revenue flow is not substantially removed from the district's direct control.

We assess the CSD's general operations because we view overall creditworthiness as a key determinant of an obligor's ability to pay all its obligations, including bonds secured by a dedicated revenue pledge.

Clinton CSD serves a population of 25,184 in eastern Iowa, 30 miles north of the Quad Cities. Median household effective buying income is adequate at 74% of the national average. Market value totaled $1.5 billion, or $63,301 per capita, which we consider strong. The district reported a $2.2 million surplus in fiscal 2021, improving the available

fund balance to nearly 26% of expenditures, which we consider very strong. Projections for fiscal 2022 show another large surplus and the fiscal 2023 budget is balanced. We view management as good under our financial management assessment. The overall debt profile is high on a per capita basis and moderately high at 9.8% of market value.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022