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Ratings

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Summary:

Bondurant-Farrar Community School District, Iowa; Sales Tax

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Credit Profile		
US$8.39 mil sch infrastructure sales, svcrs & use tax rev bnds ser 2022 due 07/01/2042		
Long Term Rating	A+/Stable	New
Bondurant-Farrar Comnty Sch Dist sales tax		
Long Term Rating	A+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'A+' long-term rating to Bondurant-Farrar Community School District (CSD), Iowa's anticipated $8.39 million series 2022 school infrastructure sales, services, and use tax revenue refunding 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 state-collected retail sales and service tax revenue for school infrastructure purposes secures the bonds. We rate the bonds under our "Priority-Lien Tax Revenue Debt" criteria, published Oct. 22, 2018, on RatingsDirect, which factors in the pledged revenue strength and stability and the general credit quality of the district where taxes are distributed and/or collected (the obligor's creditworthiness [OC]).

The district intends to use bond proceeds to finance school infrastructure projects and fund a debt service reserve fund (DSRF) at the standard three-prong test.

Credit overview

We think the likelihood of stable-to-growing per-pupil revenue will allow for consistent year-over-year revenue and at least adequate maximum annual debt service (MADS) coverage due to likely increasing enrollment. 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;
- Low-to-very low revenue volatility because of the funding mechanism, demonstrated by pledged revenue growth;
- Adequate coverage, in our view, with a 1.3x additional bonds test (ABT) and 2x MADS coverage; and
- Close obligor relationship.

Environmental, social, and governance

We have analyzed the district's environmental, social, and governance (ESG) risks and have determined all are neutral in our credit analysis.

Stable Outlook

Upside scenario

We could raise the rating with stronger bond provisions and sustained stronger coverage, while all other credit characteristics improve or remain unchanged.

Downside scenario

Although unlikely, we could lower the rating if statewide sales tax collections were to decrease, coupled with enrollment declining to such a degree that pledged revenue also significantly deteriorates, leading to lower-than-expected debt service coverage (DSC). We could also do so if the obligor's general creditworthiness were to weaken by multiple notches.

Credit Opinion

The Iowa Secure an Advanced Vision for Education (SAVE)

SAVE establishes a statewide one-cent sales tax for school infrastructure authorized through Jan. 1, 2051. Beginning with the October 2022 transfer, the Iowa Department of Revenue will transfer the actual amount of tax revenue attributable to each school district remitted in the preceding month on a per-pupil basis. The per-pupil calculation compares a district's actual, in-district certified enrollment with total statewide enrollment. All districts receive the same level of per-pupil revenue, most recently $1,112 for fiscal year 2021 and a projected $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 district'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 Iowa Code permits, including property tax relief. Absent a voter-approved broad revenue purpose statement, state statutes require districts to use SAVE funds for property tax relief first, essentially subordinating revenue bonds.

Economic fundamentals: Very strong

Pledged revenue is derived from a statewide revenue base with distributions to districts based on certified enrollment and thus we use the state as the economic foundation for our analysis. Overall, Iowa's population of nearly 3.2 million in 2020 increased by a slower rate than that of the nation. Additionally, employment growth is slower than the nation. Historically, the state unemployment rate is much lower than the nation. Median household and per capita effective buying incomes (EBIs) are 95% and 92% of the U.S., respectively. Retail sales have increased between 3% and 4% over the past five years. For further economic information on the state, see our latest full analysis on Iowa, published Aug. 14, 2020, on RatingsDirect.

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.

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.

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.

Coverage and liquidity: Adequate

The requirement 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, providing greater ability to issue bonds and fund capital projects.

The ABT is an adequate 1.3x. Most districts eventually issue additional debt to the ABT's fullest extent, and we factor this into our analysis and our expectation of future DSC. The series 2022 bonds are supported by a DSRF, providing additionally liquidity.

Post issuance, the district will have $13.5 million in sales tax revenue bonds outstanding. Using pledged revenue of approximately $2.5 million in fiscal 2021, historical coverage was approximately 1.9x. Using projected per-pupil revenue of $1,116 for fiscal 2022 (and stable enrollment of 2,424), or approximately $2.7 million, and MADS of $1.35 million in 2024, MADS coverage is approximately 2x. Coverage increases to a much stronger over 4x beginning in 2030.

During the past 10 years, enrollment increased by 957, or over 65%. For the October 2021 count, used for fiscal 2023 revenue collections, certified enrollment was 2,424. It is projected to increase between 75 and 100 annually over the next five years.

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 1,208 students, or a loss of 1,216 (a 50% decline). In addition, if enrollment remains constant at

2,424, we calculate per-pupil revenues could decline to $556, and the district would still have 1.0x MADS coverage.

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 has no additional debt plans.

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. 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.

Bondurant-Farrar CSD serves a population of 9,898 in central Iowa and is part of the Des Moines metropolitan area. MHHEBI is very strong at 126% of the national average. Actual value totaled nearly $1.3 billion, or $128,875 per capita, which we consider extremely strong. The district reported a $1.9 million surplus in fiscal 2021, improving the available fund balance to nearly $6 million, or 24% of expenditures, which we consider very strong. Projections for fiscal 2022 show at least balanced operations and the district is likely to report another surplus. We view management as good under our financial management assessment. The overall debt profile is moderately high-to-high given capital needs of a growing district.

For more information on the district's general creditworthiness, see "Bondurant-Farrar Community School District, Iowa; General Obligation," published June 15, 2021 on RatingsDirect.

Related Research

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