

## CREDIT OPINION

16 May 2023



Send Your Feedback

### Contacts

Tatum Drzen +1.312.706.9986  
 Associate Lead Analyst  
 tatum.drzen@moody.com

Coley J Anderson +1.312.706.9961  
 VP-Senior Analyst  
 coley.anderson@moody.com

### CLIENT SERVICES

Americas 1-212-553-1653  
 Asia Pacific 852-3551-3077  
 Japan 81-3-5408-4100  
 EMEA 44-20-7772-5454

# Solon Community School District, IA

## Update to credit analysis

### Summary

[Solon Community School District](#) (Aa3) has a growing tax base in eastern Iowa (Aaa stable), strong resident income and wealth metrics and a satisfactory financial position that will narrow with planned draws. This is balanced against an above average debt burden that is likely to grow as a result of its rising capital needs to support its growing population.

### Credit strengths

- » Very strong property wealth and resident income
- » Proximity to Iowa City provides some economic stability

### Credit challenges

- » Above-average leverage likely to grow as a result of its rising capital needs to support the growing population
- » Reserves will narrow with planned draws

### Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt outstanding.

### Factors that could lead to an upgrade

- » Further bolstering of reserves
- » A positive long-term enrollment trend
- » Moderation of long-term leverage

### Factors that could lead to a downgrade

- » Significant and sustained reduction in reserves or liquidity beyond what is already expected
- » Substantial increase in leverage

## Key indicators

Exhibit 1

### Solon Community School District, IA

	2019	2020	2021	2022	Aa Medians
<b>Economy</b>					
Resident income	182.0%	160.5%	165.5%	N/A	112.2%
Full value (\$000)	\$899,289	\$921,512	\$1,018,304	\$1,083,503	\$3,864,784
Population	6,925	6,916	7,091	N/A	31,619
Full value per capita	\$129,861	\$133,244	\$143,605	N/A	\$115,171
Enrollment	1,531	1,529	1,515	1,511	4,288
Enrollment trend	0.8%	-0.1%	-0.3%	-0.4%	0.1%
<b>Financial performance</b>					
Operating revenue (\$000)	\$18,215	\$19,953	\$19,694	\$19,553	\$71,385
Available fund balance (\$000)	\$2,124	\$3,827	\$5,099	\$5,827	\$18,076
Net cash (\$000)	\$2,702	\$4,340	\$7,300	\$7,977	\$21,642
Available fund balance ratio	11.7%	19.2%	25.9%	29.8%	26.8%
Net cash ratio	14.8%	21.8%	37.1%	40.8%	31.5%
<b>Leverage</b>					
Debt (\$000)	\$34,418	\$32,423	\$30,389	\$28,420	\$51,433
ANPL (\$000)	\$27,726	\$33,824	\$40,134	\$26,175	\$111,819
OPEB (\$000)	\$553	\$646	\$694	\$356	\$10,587
Long-term liabilities ratio	344.2%	335.3%	361.6%	281.0%	317.0%
Implied debt service (\$000)	\$2,674	\$2,509	\$2,322	\$2,131	\$3,485
Pension tread water (\$000)	\$1,039	\$1,024	\$1,033	N/A	\$2,924
OPEB contributions (\$000)	\$22	\$19	\$26	\$21	\$368
Fixed-costs ratio	20.5%	17.8%	17.2%	16.3%	11.5%

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [K12 Median Report](#).

Sources: US Census Bureau, Solon Community School District, IA's financial statements and Moody's Investors Service

## Profile

Solon Community School District is located in northern Johnson County and southern [Linn County](#) (Aaa stable) in east central [Iowa](#) (Aaa stable), immediately adjacent to the cities of [Cedar Rapids](#) (Aa1 stable) and [Iowa City](#) (Aaa stable). It provides kindergarten through twelfth grade to approximately 1,500 students.

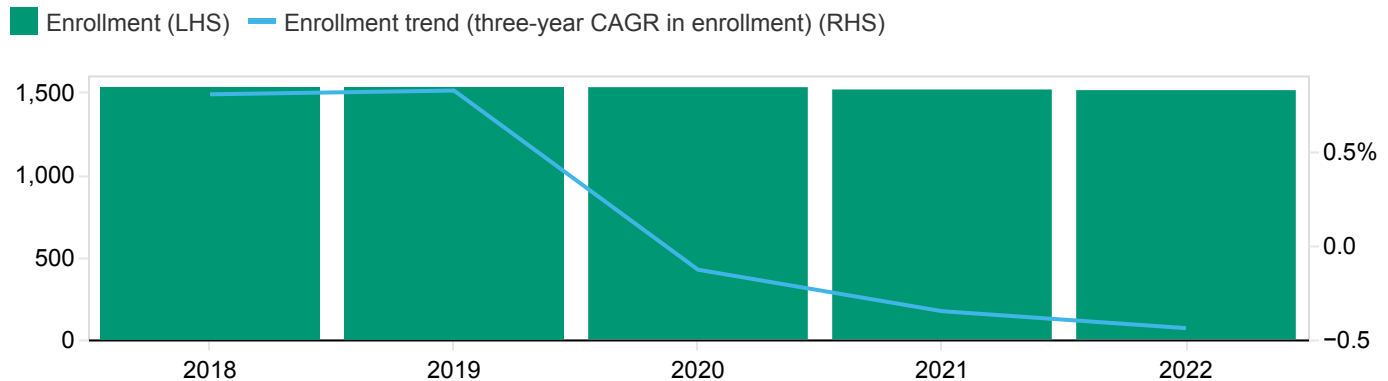
## Detailed credit considerations

### Economy: strong wealth and income supported by favorable location to Cedar Rapids and Iowa City

The district's economic profile is expected to remain stable, if not continue improving, given its desirable location adjacent to the cities of [Cedar Rapids](#) (Aa1 stable) and [Iowa City](#) (Aaa stable). Wealth indices are strong, with resident income at 166% of the national median, and full value per capita at \$144,000, based on the most recent tax base and population figures available. Population in the district has grown more than 15% over the last two decades, and management reports that substantial new residential development is still underway. With the new development, management anticipates enrollment to grow by a conservative 350 pupil over the next ten years.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Exhibit 2

**Enrollment**

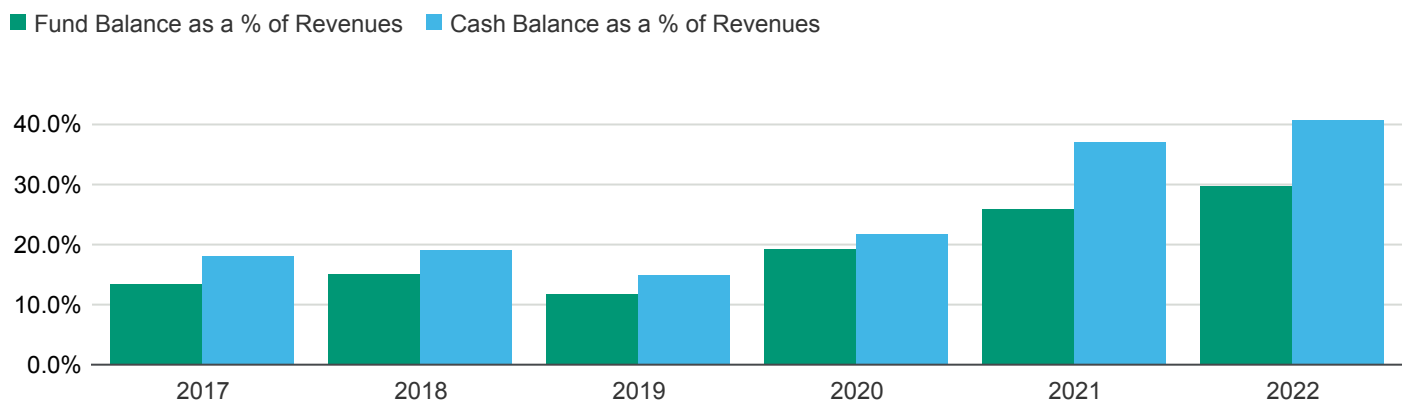
Source: Moody's Investors Service

**Financial operations: revenue raising flexibility supports stable operations and satisfactory reserves**

The district's satisfactory financial position will remain a strength despite planned spend downs over the next two years due to prudent financial management supported by sound policies. The district expects the general fund available fund balance to drop to about \$4 million in fiscal 2023 and \$3.4 million by fiscal 2024 due to the addition of staff and an increase in bargaining agreements. The district faces potential headwinds beyond fiscal 2024 if enrollment does not increase, given the depletion of federal aid and expense growth. The district ended fiscal 2022 with an operating surplus of \$728,000. It had \$5.8 million in available operating fund balance, or 30% revenue, up from around 19% in fiscal 2020. The improvement is due to an influx of federal aid.

Iowa's education funding framework is based on enrollment figures from the fall of the previous year, so growing districts, like Solon CSD, face increased operating demands that are not concurrently offset with revenue from the state. Favorably, Iowa school districts have the ability to use a cash reserve levy to maintain financial reserves. While the levy has no rate cap, school districts must limit the levy such that the combination of levy revenue and current fund balance does not exceed 20% of expenditures. In most years, the district has maintained its general fund balance at a level that enables access to this levy and maximizes its cash reserve levy and other levies to maintain a stable overall tax rate.

Exhibit 3

**Financial Trends**

Source: Moody's Investors Service

**Liquidity**

The district closed fiscal 2022 with a net cash position of about \$8 million, equal to roughly 41% of operating revenue.

**Leverage: above-average liabilities ratio will likely remain elevated due to future plans for additional debt**

The district's long-term liabilities and fixed-costs ratios will remain elevated given future debt plans. In March 2023, the district passed a \$25.5 million voter approved bond authorization, which it plans to use over the course of the next three to four years. The district is currently issuing about \$3.5 million in GOULT debt to construct and furnish an addition to the Solon Intermediate School building. The district plans to issue approximately \$10 million in spring 2024 for various projects, including an indoor practice turf field for athletic and community events. This would increase the district's long-term liabilities ratio to over 350% of operating revenue. The district closed fiscal 2022 with a long-term liabilities ratio of 283% and a fixed-costs ratio of 16% of operating revenue with the majority related to its pensions.

**Legal security**

The district's general obligation unlimited tax (GOULT) bonds are backed by its pledge and authority to levy a dedicated property tax, unlimited as to rate or amount, to pay debt service.

**Debt structure**

All of the district's outstanding debt is fixed rate and long-term. The rate of principal amortization is moderate with about 50% scheduled to be repaid within 10 years.

**Debt-related derivatives**

The district is not a party in any debt-related derivative agreements.

**Pensions and OPEB**

The district participates in a defined benefit multiple-employer cost-sharing plans, the Iowa Public Employees' Retirement System (IPERS). The district's adjusted net pension liability, based on our adjusted discount rate of 2.84%, totaled roughly \$26.2 million as of fiscal 2022, representing about 134% of revenue. The district's adjusted net OPEB liability as of fiscal 2022 was just nearly \$356,000.

**ESG considerations**

Solon CSD's ESG Credit Impact Score of CIS-2, reflects neutral to low exposure to environmental, social and governance risks.

**Environmental**

Solon CSD's environmental issuer profile score is moderately negative (E-3), reflecting moderately negative impact in physical climate risk and neutral impact in all other categories, including carbon transition, water management, natural capital and waste and pollution. The district has a moderate level of flood risk, which could impact property tax revenue and future development.

**Social**

Solon CSD's S Issuer Profile Score is neutral-to-low (S-2), reflecting health and safety, labor and income, access to basic services, and housing considerations similar to peers. The district has positive exposure to education and demographic trends. The district's educational attainment metrics are slightly above average compared to the nation. The district's population has grown over the past decade and residents benefit from employment opportunities in the nearby cities of Cedar Rapids and Iowa City.

**Governance**

Solon CSD's G Issuer Profile Score (G-2) reflects a strong institutional structure. The district maintains policy credibility and effectiveness, budget management and transparency and disclosure similar to its peers.

## Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare school district credits.

Exhibit 4

### Solon Community School District, IA

	Measure	Weight	Score
<b>Economy</b>			
Resident Income (MHI Adjusted for RPP / US MHI)	165.5%	10.0%	Aaa
Full value per capita (full valuation of the tax base / population)	152,800	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	-0.4%	10.0%	A
<b>Financial performance</b>			
Available fund balance ratio (available fund balance / operating revenue)	29.8%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	40.8%	10.0%	Aaa
<b>Institutional framework</b>			
Institutional Framework	Aa	10.0%	Aa
<b>Leverage</b>			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	283.3%	20.0%	A
Fixed-costs ratio (adjusted fixed costs / operating revenue)	16.3%	10.0%	Aa
<b>Notching factors</b>			
No notchings applied			
Scorecard-Indicated Outcome			Aa2
<b>Assigned Rating</b>			<b>Aa3</b>

Sources: US Census Bureau, Solon Community School District, IA's financial statements and Moody's Investors Service

## Appendix

Exhibit 5

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau)  RPP: US Bureau of Economic Analysis
Full value (\$000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Investors Service
<b>Financial performance</b>		
Operating revenue (\$000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance (\$000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash (\$000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
<b>Leverage</b>		
Debt (\$000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL (\$000)	District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
OPEB (\$000)	District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Investors Service
Implied debt service (\$000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water (\$000)	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contributions (\$000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Investors Service

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved. CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1368303

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454