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## Summary:

# Mormon Trail Community School District, Iowa; General Obligation

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## Summary:

# Mormon Trail Community School District, Iowa; General Obligation

### Credit Profile

US\$5.515 mil GO sch bnds ser 2020 due 06/01/2040

*Long Term Rating*

A+/Stable

New

## Rating Action

S&P Global Ratings assigned its 'A+' long-term rating to Mormon Trail Community School District, Iowa's series 2020 general obligation (GO) school bonds. The outlook is stable.

The series 2020 GO school bonds are secured by the district's unlimited tax GO pledge. Bond proceeds will be used to construct a new elementary school in the district.

## Credit Overview

Located in south central Iowa, Mormon Trail Community School District is a rural school district with a predominantly agricultural tax base. The district has experienced declines in enrollment in recent years, though officials are optimistic that the construction of a new elementary school will assist in improvement open enrollment trends. Managing the district's trend of declining enrollment and future expenditure increases will be necessary to effectively maintain stable operations for the district. In addition, while we do not anticipate the COVID-19 pandemic and recession to have a material effect on fiscal 2020's budget, future fiscal years may be adversely affected, depending on the length and severity of the pandemic and recession.

Other credit factors supporting the rating include:

- Stable local economy, with extremely strong market value capita, supported by steady growth in its tax base, which is expected to continue;
- Recent trend of operating surpluses, reflecting conservative budgeting practices and use of the district's cash reserve levy; and
- Moderate debt profile, with no additional debt plans.

Partly offsetting these positive credit characteristics is the district's trend of declining enrollment, which is a key component in state aid funding in Iowa.

## Environmental, social, and governance factors

We analyzed the district's environmental, social and governmental risks relative to its economy, management, financial measures, and debt and liability profile and determined that all are in line with our view of the sector standard.

## Stable Outlook

### Downside scenario

In the event the district continues to experience declining enrollment, leading to weakened fiscal performance and causing a material deterioration in reserves, the rating could be lowered. In addition, should the district incur operating losses as a result of the COVID-19 pandemic and recession, leading to a weakened financial position, a lower rating is possible.

### Upside scenario

While not expected, if the district were to achieve materially improved economic indicators, while maintaining or improving its other credit factors, a higher rating is possible.

## Credit Opinion

### **The district's local economy is fairly limited, though characterized by a primarily agricultural tax base and supported by positive growth trends**

The district serves the communities of Derby, Garden Grove, Humeston, and Le Roy in Clarke, Decatur, Lucas, and Wayne counties in south central Iowa. The district is located approximately 57 miles south of Des Moines and 20 miles north of the Missouri state line. The district provides pre-K-12 educational services to about 1,634 residents. The district is primarily agricultural, with approximately 56% of taxable valuation (TV) comprising agricultural properties, followed by residential property at 28%. Market value trends within the district have been very positive, with an average annual increase of 10.4% in TV the past three years, driven primarily by growth in agricultural properties. We expect continued steady tax base growth during the next few years. In response to the COVID-19 pandemic, the state has suspended penalties for delayed property tax payments, but officials indicate that taxpayers are still required to pay their taxes within the district's current fiscal year, and they do not anticipate a significant change to the district's finances.

### **Strong recent financial performance, with consecutive surpluses resulting from conservative budgeting and utilization of its cash reserve levy**

Enrollment is a key driver of state education funding in Iowa. Increases or decreases in enrollment can lead to increases or decreases, respectively, in revenue. Enrollment has declined in recent years, reflecting a declining rural population base and losses for open enrollment. Management forecasts that enrollment will remain flat during the next few years. Open enrollment trends have been negative in recent years, with a 3-to-1 ratio in favor of students choosing to open enroll out compared to those that choose to open enroll in. Despite this trend, officials are optimistic that the new elementary school building project, once complete, will lead to higher numbers of students that choose to open-enroll into the district.

After posting a 5.3% general fund surplus in fiscal 2018, the district posted another surplus of 5.1%, or \$174,000 in fiscal 2019. Driving this overall trend of positive operational performance has been conservative budgeting and the utilization of the district's cash reserve levy. For unaudited fiscal 2020, the district estimates a break-even to slightly positive general fund year-end result. The district does not foresee a significant impact to its 2020 fiscal year-end result

as a result of the COVID-19 pandemic, apart from a possible delay in the receipt of some property tax payments, though officials believe that any late payments will be received by the end of fiscal 2020. State sources represented approximately 55% of general fund revenues in fiscal 2019, followed by local sources at 40%.

For the 2021 fiscal year, the district does not expect its budget to vary significantly as compared to previous fiscal years, as it intends to adopt a structurally balanced budget. The district's overall tax rate is expected to remain the same, as officials will offset a higher bond levy with a reduced management levy. Though the state of Iowa has not promulgated any reductions for fiscal 2021 state K-12 education aid to date, this remains a possibility should state revenue fall significantly short of expectations as a result of the COVID-19 pandemic.

### **Standard financial policies and practices under our financial management assessment reflect limited policies maintained by the district**

We consider the district's management practices standard under our financial management assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

In developing its budget, the district examines three years of historical data in developing its annual budget, utilizes outside sources such as Forecast5, a third-party consultant used to develop long-term forecasts, and uses line-item budgeting. The district provides comprehensive monthly updates to its board regarding the budget, tax rates and upcoming fiscal years, but this report is not budget-to-actual. The district does not maintain a long-term capital plan, but the district has adopted a comprehensive five-year, long-term financial plan, which is updated annually. The district has its own investment management declaration regarding the financial institutions that it uses, but does not provide monthly updates regarding investments to its board. The district maintains a debt management policy that provides limitations on the purpose, length, and structure of debt that is permitted to be issued by the district. The district does not have a reserve policy.

### **Moderate debt with manageable pension and OPEB obligations**

We view the district's debt as a percentage of market value and on a per capita basis as being moderate. The district does not have any additional debt plans within the next few years.

The district contributes to the Iowa Public Employees Retirement System (IPERS), cost-sharing, multiemployer defined-benefit pension plan administered by the state of Iowa. The district's contributions to the system are set by state statutes, and the amounts were equal to the required contributions for each of the past three fiscal years. Retirees and their spouses are allowed to stay on the district's health insurance plan up to the age of 65, but they are responsible for paying the entire insurance premium themselves.

Combined, the district's pension and other postemployment benefit contributions represented 4.5% of fiscal 2019 total governmental expenditures. The district's proportionate share of the net pension liability in its IPERS plan was \$1.3 million as of June 30, 2019, and was 85.5% funded. The district's total OPEB liability was \$50,576 in 2019. We consider the district's pension and OPEB obligations as being manageable.

## **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

**Mormon Trail School District, IA: Financial & Operating Statistics**

	--Characterization--	--Most recent--	--Historical information--		
			2018	2017	2016
<b>Economic indicators</b>					
Population			1,634	1,627	
Median household EBI % of U.S.	Adequate		88	96	
Per capita EBI % of U.S.	Adequate		82	90	
MV per capita (\$)	Extremely strong	108,312	100,670	99,586	
Top 10 taxpayers as % of AV					
<b>Financial indicators</b>					
Total adjusted available fund balance (\$000)		767	645	496	
Total adjusted available fund balance as % of operating expenditures	Very strong	22.59	19.78	15.87	
Governmental funds cash as % of governmental fund expenditures		81.73	58.88	69.76	
General fund operating result as % of general fund operating expenditures		5.12	5.34	8.80	
<b>FMA</b>					
Enrollment		194	226	222	
Debt and long-term liabilities					
Overall net debt as % of MV	Moderate	4.50	0.50	0.00	
DS as % of governmental funds expenditures	Low	2.52	0.00	0.00	0.00
Required pension contribution (\$000)		169.00	153.00	149.00	
OPEB contribution (\$000)					
Required pension plus OPEB contribution as % of governmental fund expenditures		4.52	3.71	4.46	

EBI--Effective buying income. MV--Market value. AV--Assessed value. FMA--Financial Management Assessment. DS--Debt service. OPEB--Other postemployment benefits.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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