S&P Global Ratings

RatingsDirect®

Summary:

Clear Lake Community School District, Iowa; General Obligation

Primary Credit Analyst:
Joseph Vodziak, Chicago + 1 312 233 7094; joseph.vodziak@spglobal.com

Secondary Contact:
Blake E Yocom, Chicago (1) 312-233-7056; blake.yocom@spglobal.com

Table Of Contents

Summary:

Clear Lake Community School District, Iowa; General Obligation

Credit Profile		
US$18.0 mil GO sch bnds ser 2020 due 06/01/2040		
Long Term Rating	AA-/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to Clear Lake Community School District, Iowa's roughly $18.0 million series 2020 general obligation (GO) bonds. The outlook is stable.

The district's unlimited-tax GO pledge secures the bonds.

Officials intend to use the series 2020 bond proceeds to make capital improvements districtwide, including renovations at the district's sports complex, adding a wellness center, and safety and security upgrades.

Credit overview

The district, in north central Iowa, is on Clear Lake, which has a number of highly valued lakefront homes. Most of these are secondary homes and a large portion of the primary residents are retirees. These lakefront properties result in the primarily residential tax base being extremely strong on a per capita basis. While a slowdown in the local economy and a decline in the tax base are probable due to the current economic recession caused by the COVID-19 pandemic, we believe the tax base will remain at a level that is supportive of the current rating. The local community is supportive of the district, with more than two-thirds of voters approving the bond referendum for this project. The district benefits from a portion of the tax burden falling on more affluent vacation properties. In addition, the strong and transparent management team and officials focusing spending on students further helps garner voter support. The strong tax base, voter support, and good management have allowed the district to build a strong financial profile that, in our view, will allow the district to withstand a short-term state aid decrease or delay in property tax receipts that could occur due to the pandemic.

Other credit factors include, what we consider, the district's:

- Large residential tax base, with strong voter support for school initiatives;
- Very strong operating results in recent years, which we expect to moderate over the next two years, but remain balanced; and
- Increased debt, with the addition of electorate-approved GO issues, which have led to moderate overall net debt per capita, and will cause increased carrying charges.

Stable Outlook

Downside scenario

We could lower the rating if financial performance deteriorates significantly, whether because of recessionary pressures or other reasons, leading to a sustained decrease in available reserves.

Upside scenario

While unlikely given the current economic recession, we could raise the rating if the local income measures experience a sustained increase and fixed carrying charges moderate.

Credit Opinion

Affluent lakefront properties support the district's tax base

The tax base is largely residential, which makes up 67% of total taxable valuation (TV), followed by commercial properties at 15%. TV growth has been consistent over the past five years, largely reflecting residential property appreciation and commercial developments. The tax base is very diverse: The leading taxpayers accounted for about 14.7% of TV in tax year 2019. A little more than half of the highly valued residential lakefront properties are secondary vacation homes and an above average percentage of the population is retired. The district's effective buying incomes reflect the retirees and vacation homes in the tax base. While the pandemic may reduce some property valuations, we believe the tax base will remain very strong. In addition, management reports that there have been no delays to ongoing commercial and multi-residential developments. Overall, the local economy should weather the pandemic, and we expect it the overall economic profile to remain strong over the next two fiscal years.

Enrollment is a key generator of Iowa state-education funding. Increases or decreases in enrollment can lead to corresponding increases or decreases in revenue. The district has experienced some fluctuations, but overall stable enrollment with student counts increasing by 6.5% during the past four school years. Despite population declines throughout Cerro Gordo County and an older demographic profile, district management believes enrollment will at least remain stable. We believe enrollment growth is possible if open-enrollment trends persist. The district has a positive 127 net open enrollment student count as of October 2019.

Very strong audited operating results with the use of a cash reserve levy and implementation of efficient operating practices in recent years

The district finished fiscal years 2018 and 2019 with very strong surpluses. These operating results were driven by expenditure adjustments and cuts, labor contract increases not exceeding the revenue growth provided by legislators, use of a cash reserve levy, and careful budgetary assumptions. With growth in reserves, the district is not currently able to levy additional cash reserve funds. In 2018, 2019, and 2020, the district levied $1.13 million, $0.96 million, and $0.13 million, respectively, for cash reserves. The district expects fiscal 2020 to finish with a surplus of close to 3% of expenditures. Management reports that for the fiscal year ending June 30, 2020 it will see very little impact from the COVID-19 pandemic and the ensuing recession and it does not expect significant changes for fiscal 2021 given the high reliance on local property taxes. Local source revenue accounted for 59% of fiscal 2019 general fund revenue followed by state sources at 38%. The district received approximately $1.28 million, or 7% of total governmental funds revenue, from Secure an Advanced Vision for Education (SAVE) funds. SAVE funds are only used for capital needs and maintenance at the district. These funds are more likely to be reduced due to the current recession as they come from statewide sales, services, and use taxes

Officials have structured the 2021 budget with no additions to staff and they deferred some smaller capital items that they were planning to address with SAVE funds and Physical Plant and Equipment Levy (PPEL) funds. The 2021 budget is structured with a slight surplus of less than 1% of expenditures; should cuts to state aid occur and federal reimbursements come in less than expected, the district would draw upon its available reserves and make adjustments in the following year's budget. We believe the recession will likely pressure some of these budget assumptions. However, the district has a strong financial position that we believe will remain strong even if operating shortfalls occur over the next two years.

Good financial management policies and practices

Our good Financial Management Assessment is supported by the district's use of historical data, outside sources including a forecast-five projection in its budgetary assumptions. Amendments to the budget can be made and the board is provided monthly budget-to-actual reports. The district updates a forecast-five financial planning model at least annually and it has a facility planning committee that assesses capital projects at least twice a year, which it will fund with SAVE and PPEL funds. The district has a formal investment policy and reports holdings to the board monthly. It has a debt management policy that adheres to the statutory limitations, and there is no formal reserve policy, but officials strive to maintain at least 15% in available reserves.

Moderate per capita debt, with carrying charges increasing beginning in fiscal 2021 as debt-service payments begin on recent issuances

Following this issuance the district will have $28.1 million in overall net debt, including $5.1 million in direct placement sales tax revenue bonds and $5.0 million in overlapping debt. Officials have no plans to issue additional new money debt over the next two years. Debt carrying charges were low at 3.8% of expenditures in fiscal 2019. As the district begins to repay debt service on the $18 million of electorate-approved debt, we expect carrying charges will increase to at least a level that we consider moderate. The series 2017 and 2018 direct-placement sales tax revenue bonds have no extraordinary events of default or acceleration of principal listed as a remedy for default.

Pension and other postemployment benefits liabilities are manageable

Highlights of our pension and postemployment benefits (OPEB) assessment include:

- We do not believe that pension and OPEB liabilities represent a medium-term credit pressure, as contributions are only a modest share of the budget and the district has the capacity to absorb higher costs without straining operations.
- The district participates in a multiple-employer, defined-benefit pension plan, which is relatively well funded. While the funding practices and other plan-specific assumptions introduce some long-term risk of funding volatility.
- Historically the district has paid five years of insurance premiums for retirees who received early retirement incentives, but recently this has shifted to a lump-sum payout. The district has 20 employees receiving contributions from the district.
- Retirees under the age of 65 may stay on the district's health care costs and are responsible for their entire premium.

The district participates in the following plans:

Iowa Public Employees' Retirement System (IPERS): 85.5% funded (as of June 30, 2019), with a district proportionate share of the plan's net pension liability of $6.8 million.

A single employer OPEB plan, which consists of a defined benefit and implicit rate subsidy arising from retirees staying on the district's plan while paying active premium rates: 0% funded with a liability of $1.7 million.

The district's pension contributions of $860,000 and OPEB contributions of $80,000 are an affordable share of the budget. Total contributions to IPERS were 102% and 88.5% of our static funding and minimum funding progress metrics, respectively, in 2019. With market volatility due to the pandemic, we expect the plan's liability has an elevated probability of increasing in the near term. Some key assumption risks consist of a 7.0% investment rate of return assumption that indicates some exposure to cost acceleration due to market volatility, and an amortization method that defers contributions through a lengthy, closed amortization period based on a level 3.25% payroll growth assumption. Overall, the plan is relatively well funded. We think pension and OPEB contributions are unlikely to pressure the district's medium-term operational health.

Clear Lake Community School District, Iowa--Financial And Operating Statistics

	Characterization	Most recent	Historical information		
			2019	2018	2017
Economic indicators					
Population			-	8,440	8,397
Median household EBI as a % of U.S.	Good		-	93	89
Per capita EBI as a % of U.S.	Good		-	105	102
MV per capita ($)	Extremely strong	286,000	276,884	222,320	227,422
Top 10 taxpayers as a % of AV	Very diverse	14.7	-	8.1	8.7
Financial indicators					
Total adjusted available fund balance ($000)			3,654	2,650	974
Total adjusted available fund balance as a % of operating expenditures	Low		24.3	19.1	6.5
Governmental funds cash as a % of governmental fund expenditures			43.8	40.3	33.0
General fund operating result as a % of general fund operating expenditures			7.32	12.50	(5.40)
FMA					
Enrollment		1,245	1,334	1,220	1,222
Debt and long-term liabilities					
Overall net debt as a % of MV	Low	1.2	0.4	0.4	0.2
DS as a % of governmental funds expenditures	Low		3.8	3.8	3.6
Required pension contribution ($000)			860	794	845
OPEB contribution ($000)			80	75	154

Clear Lake Community School District, Iowa--Financial And Operating Statistics (cont.)					
	Characterization	**Most recent**	**Historical information**		
			2019	**2018**	**2017**
Required pension plus OPEB contribution as a % of governmental fund expenditures			4.2	4.4	5.0

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

Related Research

- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 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