

ISSUER COMMENT

6 August 2017

RATING

General Obligation (or GO Related) ¹

Aa2 No Outlook

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Dallas Center-Grimes Community School District, IA

Annual Comment on Dallas Center-Grimes CSD

Issuer Profile

Dallas Center-Grimes Community School District is located in Dallas County in central Iowa, adjacent to the northwestern Des Moines metro area. Dallas County has a population of 77,400 and a population density of 132 people per square mile. The county's per capita personal income is \$55,851 (1st quartile) and the November 2016 unemployment rate was 2.2% (1st quartile). ² The largest industry sectors that drive the local economy are finance/insurance, retail trade, and health services.

Credit Overview

Dallas Center-Grimes CSD's credit position is very high quality, and its Aa2 rating is slightly above the median rating of Aa3 for US school districts. The notable credit factors include a robust financial position, a strong socioeconomic profile with a moderately sized tax base, a mid-ranged pension liability and a sizable debt burden.

Finances: The financial position of the district is very healthy and is relatively favorable in comparison to the assigned rating of Aa2. Dallas Center-Grimes CSD's net cash balance as a percent of revenues (37.1%) is notably higher than the US median and rose modestly from 2013 to 2016. Additionally, the available fund balance as a percent of operating revenues (35.0%) far exceeds other Moody's-rated school districts nationwide. Notably, the district's reserve position is primarily restricted for debt service and reserves available for general operations are significantly lower but still satisfactory.

Economy and Tax Base: The district has a very strong economy and tax base, which are in line with its Aa2 rating. The full value per capita (\$128,158) is above the US median. That said, this number fell from 2013 to 2016. Furthermore, the median family income equals a significant 144.7% of the US level. Lastly, Dallas Center-Grimes CSD's total full value (\$1.4 billion) is below the US median.

Debt and Pensions: The district has a moderate pension burden and an elevated debt burden. Overall, they are slightly weak when compared with the Aa2 rating assigned. Favorably, the Moody's-adjusted net pension liability to operating revenues (1.2x) is below the US median and decreased slightly from 2013 to 2016. On the other hand, the net direct debt to full value (2.8%) is well above the US median. That said, the district's debt burden is slightly overstated due to one series of debt that is economically defeased and another series of debt that has a bullet maturity that will be paid from a restricted sinking fund that is included in the districts operating reserves.

Management and Governance: The ability to generate balanced financial operations is a sign of good financial management. In recent years Dallas Center-Grimes CSD approximately broke even whereas the tax base contracted modestly.

Iowa school districts have an Institutional Framework score ³ of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Revenue raising flexibility is high as the management levy is unlimited. Districts can also access other levies with board and/or voter approval, including the cash reserve levy, which can equal up to 20% of the prior year's general fund expenditures. Revenues and expenditures tend to be predictable, given state-impose limits on annual growth rates. Across the sector, fixed and mandated costs are generally moderate. However, Iowa has public sector unions, which can limit the ability to cut expenditures.

Sector Trends - Iowa School Districts

Iowa school districts are benefitting from steady appreciation of taxable valuations and ample revenue-raising flexibility, despite recent property tax reform. Spending limitations should continue to make expenditures manageable and predictable. The state allowable per-pupil spending growth rate equaled 2.25% in fiscal 2017 and was decreased to 1.1% for fiscal 2018. School districts with large declines in enrollment may encounter pressure from fixed costs as they reach their state spending limit, but generally districts can reduce expenditures as necessary. Pension contributions are expected to increase over the near-term given recent growth in unfunded liabilities for statewide cost-sharing plans. Charter schools do not have a significant presence in Iowa.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 1

Key Indicators [4](#) [5](#)

Dallas Center-Grimes CSD, IA

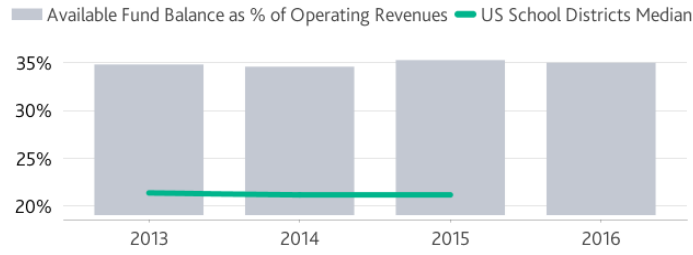
	2012	2013	2014	2015	2016	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$1,024M	\$1,092M	\$1,149M	\$1,272M	\$1,370M	\$1,870M	Improved
Full Value Per Capita	\$96,796	\$106,879	\$112,787	\$118,974	\$128,158	\$83,193	Improved
Median Family Income (% of US Median)	133%	134%	142%	145%	145%	103%	Improved
Finances							
Available Fund Balance as % of Operating Revenues	31.1%	34.8%	34.6%	35.3%	35.0%	21.0%	Stable
Net Cash Balance as % of Operating Revenues	71.1%	34.7%	36.2%	35.1%	37.1%	25.7%	Weakened
Debt / Pensions							
Net Direct Debt / Full Value	3.9%	2.7%	2.9%	2.1%	2.8%	1.5%	Improved
Net Direct Debt / Operating Revenues	1.65x	1.25x	1.26x	0.96x	1.27x	0.72x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	N/A	2.7%	3.0%	2.6%	2.6%	3.0%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	N/A	1.26x	1.30x	1.20x	1.17x	1.54x	Stable
	2012	2013	2014	2015	2016	US Median	
Debt and Financial Data							
Population	10,585	10,226	10,190	10,693	N/A	N/A	
Available Fund Balance (\$000s)	\$7,460	\$8,204	\$9,044	\$9,807	\$10,754	\$8,051	
Net Cash Balance (\$000s)	\$17,044	\$8,163	\$9,469	\$9,744	\$11,399	\$9,817	
Operating Revenues (\$000s)	\$23,967	\$23,551	\$26,137	\$27,790	\$30,710	\$38,823	
Net Direct Debt (\$000s)	\$39,595	\$29,315	\$32,930	\$26,640	\$38,905	\$26,674	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	N/A	\$29,652	\$34,100	\$33,322	\$35,880	\$54,746	

*Tax base information is presented on a levy year basis while financial information is presented on a fiscal year basis

Source: Moody's Investors Service

EXHIBIT 3

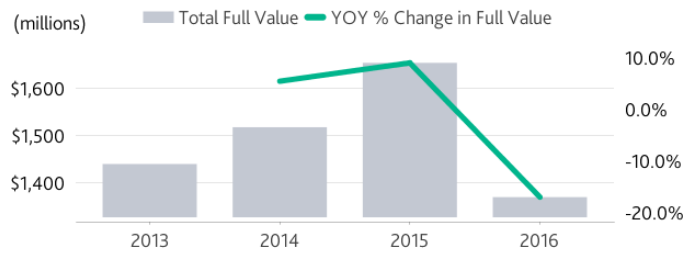
Available fund balance as a percent of operating revenues grew between 2013 and 2016



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 4

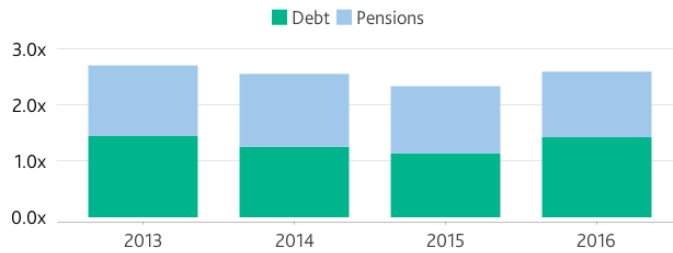
Total full value decreased from 2013 to 2016



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 5

Moody's-adjusted net pension liability to operating revenues decreased from 2013 to 2016



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See [Local Government GO Pledges Vary Across States](#) for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantee or enhancement programs or bond insurance.
- 2 The per capita personal income data and unemployment data for all counties in the US census are allocated to quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is \$46,049 for 2014. The median unemployment rate for US counties is 5.1 % for June 2016.
- 3 The institutional framework score measures a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(January 2014\)](#) for more details.
- 4 For definitions of the metrics in the Key Indicators Table, US Local Government General Obligation Methodology and Scorecard User Guide (July 2014) . The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey.

Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average ANPL) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years.

Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Certain state specific rules also apply to individual data points and ratios. Moody's makes adjustments to New Jersey local governments' reported financial statements to make it more comparable to GAAP.

Additionally, Moody's ANPLs reflect analyst adjustments, if any, for pension contribution support from non-operating funds and self-supporting enterprises. Many local government pension liabilities are associated with its participation in the statewide multiple-employer cost-sharing plans. Metrics represented as N/A indicate the data were not available at the time of publication.

- 5 The medians come from our most recently published local government medians report, [Medians – Growing Tax Bases and Stable Fund Balances Support Sector's Stability \(March 2016\)](#) . The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014.

As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2014.

However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians.

Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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