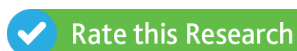


CREDIT OPINION

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Dallas Center-Grimes Community School District, IA

Update to credit analysis

Summary

[Dallas Center-Grimes CSD](#) (Aa2) benefits from strong resident incomes, a growing tax base with a healthy full value per capita, strong demographic trends, growing enrollment because of its economic ties to the [Des Moines](#) (Aa2 stable) metropolitan area and healthy reserves. The credit strengths are balanced against the district's moderate long-term leverage related to debt, pension and OPEB liabilities, which was driven in part by the need to expand to accommodate growing enrollment.

Credit strengths

- » Strong resident incomes and full value per capita
- » Growing population and enrollment

Credit challenges

- » Moderate leverage related to long-term debt, pension and OPEB burdens

Rating outlook

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

Factors that could lead to an upgrade

- » Continued economic growth that leads to strengthening of the full value per capita or resident income levels
- » Further bolstering of available reserves
- » Reduction in long-term liabilities and fixed costs

Factors that could lead to a downgrade

- » Significant erosion of the district's economic indicators
- » Sustained weakening of the enrollment trend
- » Material decline in fund balance or cash
- » Material increase in long-term liabilities or fixed costs

Key indicators

Exhibit 1

Dallas Center-Grimes Community S.D., IA

	2017	2018	2019	2020	Aa Medians
Economy					
Resident income	166.5%	155.6%	143.7%	143.7%	121.7%
Full value (\$000)	\$1,548,008	\$1,682,702	\$1,896,896	\$1,989,230	\$3,848,156
Population	12,002	12,959	13,402	13,402	29,777
Full value per capita	\$128,979	\$129,848	\$141,538	\$141,538	\$104,849
Enrollment	3,140	3,238	3,349	3,478	4,489
Enrollment trend	N/A	5.4%	4.2%	3.5%	-0.1%
Financial performance					
Operating revenue (\$000)	\$35,004	\$38,132	\$41,338	\$41,040	\$73,583
Available fund balance (\$000)	\$10,688	\$14,689	\$20,215	\$20,472	\$18,249
Net cash (\$000)	\$11,292	\$15,473	\$20,857	\$21,280	\$22,186
Available fund balance ratio	30.5%	38.5%	48.9%	49.9%	25.4%
Net cash ratio	32.3%	40.6%	50.5%	51.9%	30.4%
Leverage					
Debt (\$000)	\$39,620	\$38,165	\$56,675	\$79,385	\$49,675
ANPL (\$000)	\$55,280	\$51,451	\$51,242	\$55,217	\$96,635
OPEB (\$000)	N/A	\$1,723	\$1,987	\$1,318	\$12,399
Long-term liabilities ratio	N/A	239.5%	265.9%	331.2%	284.4%
Implied debt service (\$000)	\$3,277	\$2,943	\$2,812	\$4,132	\$3,456
Pension tread water (\$000)	\$1,441	\$1,869	\$1,911	N/A	\$3,192
OPEB contributions (\$000)	N/A	\$138	\$148	\$86	\$507
Fixed-costs ratio	N/A	13.0%	11.8%	14.9%	11.6%

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 [K-12 Median Report](#).

Sources: US Census Bureau, Dallas Center-Grimes Community S.D., IA's financial statements and Moody's Investors Service

Profile

Dallas Center Grimes Community School District in central [Iowa](#) (Aaa stable) in the Des Moines metropolitan area in [Dallas County](#) (Aaa stable) and [Polk County](#) (Aaa stable). The district has a population of more than 13,000 residents. The district is comprised of the cities of Dallas Center, [Grimes](#) (Aa2), and a portion of the [City of Urbandale](#) (Aa1). Dallas Center Grimes has about 422 employees that provide educational programs for more than 3,100 students in prekindergarten through the twelfth grade.

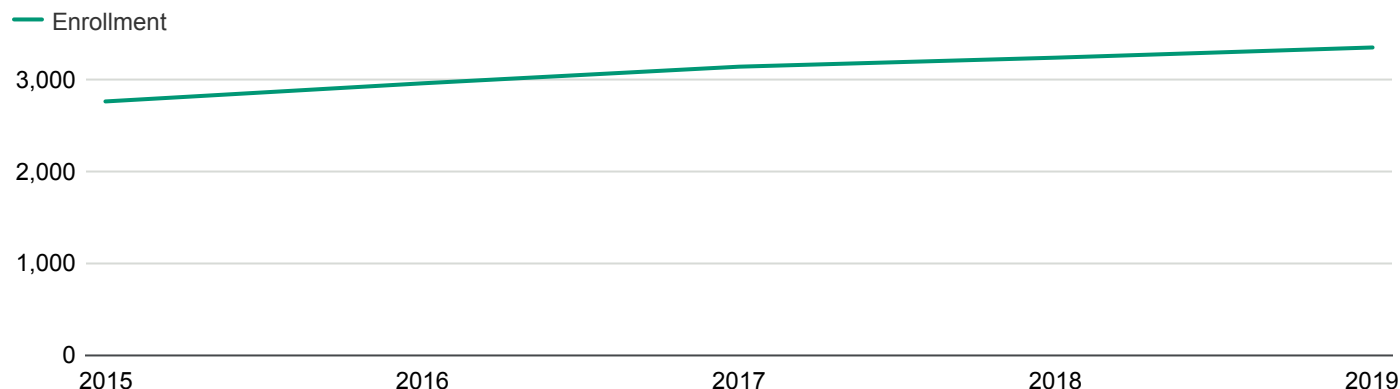
Detailed credit considerations

Economy

The district's healthy economic base and close ties to the Des Moines metropolitan area will remain a credit strengths over the long-term and will continue supporting above-average resident incomes. The district's population and tax base have grown rapidly during the last decade. The full value per capita now totals a healthy \$148,000 and resident incomes are also strong at about 144% of the nation. New residential construction to accommodate the inflow of new residents into the district will be a key driver of the district's tax base and enrollment growth going forward. The three year enrollment trend of 3.5% is very strong, with total enrollment now exceeding 3,100 students (exhibit).

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 2

Enrollment

Source: State Department of Education

Financial operations

The district's financial profile will remain solid despite recent reserve declines because the district will begin accessing available margin under the cash reserve levy in fiscal 2021 and 2022. The district increased its cash reserve levy to \$1.8 million in fiscal 2022 from \$411,000 in fiscal 2021, which is expected to result in a general fund surplus of about \$225,000 in fiscal 2022. Management's fiscal 2021 estimates reflect a \$560,000 decline in general fund reserves, primarily driven by expenditure growth.

The district closed fiscal 2020 with an available general fund balance of about \$5.8 million, equal to 17% of revenue. The combined available fund balance across the general fund, management levy fund and debt service fund totaled a stronger \$20 million, equal to 50% of revenue. Most of the district's reserves are held in the debt service fund and will be used to redeem a portion of the district's outstanding bonds in advance of their stated maturity.

The district's largest sources of revenue include state aid (47%) and property taxes (40%). In addition to its general operating levy and cash reserve levy, the district levies a Physical Plant and Equipment Levy (PPEL) for capital and equipment needs. The PPEL levy is voter approved through fiscal 2026. The district also uses a board approved instructional support levy that funds enhanced educational programs by generating an additional 10% of total regular program costs. Additionally, the district benefits from a 1% School Infrastructure Sales, Services and Uses Tax which is dedicated to fund capital projects and pay debt service.

Liquidity

The district closed fiscal 2020 with about \$21 million in cash, equal to a very strong 52% of revenue. Similar to the fund balance, a large portion of the district's cash in the debt service fund will be used to redeem a portion of the district's outstanding bonds in advance of their stated maturity.

Leverage

Overall leverage is likely to remain moderate given the moderate adjusted net pension liability metrics (ANPL), moderate debt levels and limited borrowing plans for the next few years. The district's total long-term debt, pension and OPEB liabilities are equal to about 318% of revenue with a low fixed costs ratio of about 14%.

Legal security

The district's GOULT debt is secured by its general obligation pledge and is payable from a dedicated property tax levy, unlimited as to rate or amount, to pay debt service.

Debt structure

All of the district's debt is fixed rate and long-term.

Debt-related derivatives

The district is not a party to any debt-related derivatives

Pensions and OPEB

Pension and OPEB liabilities represent a moderate long-term credit risk. The district participates in one defined benefit multiple-employer cost-sharing plan, the Iowa Public Employees' Retirement System (IPERS). On an annual basis, the plan establishes local government retirement contributions as a share of annual payroll based on actuarial requirements. Currently, employer contribution rates are under 10% of payroll while employee contributions rates are approximately 7% of payroll for. Those contributions are roughly equal to our tread water indicator.

The Moody's ANPL uses the cost-sharing plan allocation of plan liabilities and fair market value of assets reported by the district under GASB 68 but reflects the use of the FTSE Pension Liability Index, a high investment-grade long-term taxable bond index, to value the plan's liabilities. While the plan's current discount rate is 7.00%, the FTSE Pension Liability Index used to value liabilities was 3.5%.

ESG considerations

Environmental

Environmental considerations are not material to the district's credit profile. According to data from Moody's affiliate Four Twenty Seven, Dallas County's environmental hazard scores range from no risk to medium risk for three of the environmental factors considered including extreme rainfall, sea level rise and exposure to hurricanes and typhoons. The county does have notable exposure to heat stress and water stress though environmental factors have not had a material impact on the district's credit profile.

Social

Social considerations are a factor in the district's credit profile. The median age of district residents (34) is below the state (38) and national (38) medians. The district's school-age population (17%) is on par with the state's rate (17%) and the national rate (17%). The district's population has been growing rapidly for the last two decades, increasing to about 13,400 residents in 2019 from about 7,100 in 2000. The district's enrollment has been gradually growing since 2000.

Governance

Iowa school districts have an Institutional Framework score ¹ of Aa. The state controls the bulk of school district revenue through per-pupil revenue limits adopted in the state budget. Distributions are calculated based on enrollment, historical spending and wealth. State aid makes up the difference between the revenue limit and what is generated locally. The state typically provides for regular and predictable increases in funding but has at times held funding flat. Most districts have headroom to meaningfully increase property taxes by a board vote and districts at statutory limits may seek a voter override.

Iowa's education funding framework is based on enrollment figures from the fall of the previous year, so rapidly growing districts, like Dallas Center-Grimes, 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 unexpended fund balance does not exceed 20% the prior year's expenditures. The district has historically used its cash reserve levy when capacity is available to maintain an adequate level of operating reserves to mitigate operating pressures from growing enrollment.

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 3

Dallas Center-Grimes Community S.D., IA

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	143.7%	10.0%	Aaa
Full value per capita (full valuation of the tax base / population)	148,428	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	3.5%	10.0%	Aaa
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	49.9%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	51.9%	10.0%	Aaa
Institutional framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	318.2%	20.0%	A
Fixed-costs ratio (adjusted fixed costs / operating revenue)	14.4%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa1
Assigned Rating			Aa2

Sources: US Census Bureau, Dallas Center-Grimes Community S.D., IA's financial statements and Moody's Investors Service

Appendix

Exhibit 4

Key Indicators Glossary

	Definition	Typical Source*
Economy		
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
Financial performance		
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
Leverage		
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

Endnotes

- The institutional framework score categorically assesses whether a district has the legal ability to raise the bulk of its operating revenue at the local level or if the state determines the bulk of its operating revenue. Beyond the local versus state categorization, the strength of the institutional framework score is a measure of the district's flexibility in raising additional locally determined operating revenue. See [US K-12 Public School Districts Methodology](#) for more details.

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