

Research Update:

Underwood Community School District, IA Series 2025 GO Bonds Rated 'A+'; Outlook Is Stable

May 8, 2025

Overview

- S&P Global Ratings assigned its 'A+' long-term rating to Underwood Community School District (CSD), Iowa's anticipated \$12.52 million series 2025 general obligation (GO) school bonds.
- At the same time, we affirmed our 'A+' rating on the district's existing GO debt.
- The outlook is stable
- The rating is based on the application of our criteria, "Methodology For Rating U.S. Governments," published Sept. 9, 2024.

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Rationale

Security

The district's unlimited ad valorem tax GO pledge secures the bonds. The bond proceeds will be used for HVAC improvements and remodeling existing facilities.

Credit highlights

The rating reflects the district's reserve position, which improved in fiscal 2024 with management's use of the cash reserve levy. While the recent decline in reserves weakens the financial profile, our rating reflects the anticipation of an improved reserve position as management continues to use the cash reserve levy, levying \$581,000 in fiscal 2025 and \$507,000 in fiscal 2026.

Fiscal 2024 unaudited results, as reflected in the Certified Annual Report (CAR), reflect a \$1.1 million general fund surplus (9.82% of revenues), with reserves increasing to \$1.325 million, or 11.65% of revenues. Furthermore, it maintains about \$506,000 in the general fund as restricted for categorical funding purposes, providing additional flexibility. The district's financial plan details continued improvements in reserves, with reserves expected to improve to 16.28% in

fiscal 2025. We expect this is likely given management's conservative spending, implemented cost-cutting measures, and the district's growing enrollment trend.

Enrollment is a key generator of state education funding in Iowa. Increases or decreases in enrollment can lead to corresponding increases or decreases in revenue. The district has reported a positive enrollment trend since 2021, which management expects will continue, which should result in increased state aid for the district. Based on current population trends and recent residential development, we view these expectations as likely.

The rating reflects our view of the district's:

- Location in Pottawattamie County, with gross county product per capita and county per capita personal incomes that lag the national average. However, the district benefits from its access to the Omaha-Council Bluffs area, which provides residents additional employment opportunities, as reflected in the local income metrics, which surpass county and national averages.
- Recent deficits fueled by higher-than-budgeted instruction costs, however, the fiscal 2024 CAR reflects alignment with management's informal reserve target of 8%-12% and its financial plan details continued compliance.
- Forward-looking budgeting practices, with monthly performance updates provided to the board and budgets informed by a detailed multiyear financial plan. The district does not have an investment or debt policy and its cyber-security measures align with those of peers.
- Manageable debt burden with no additional debt plans.
- Minimal cost pressure from pension and other postemployment benefits given the low contribution costs relative to its budget.
- For more information on our institutional framework assessment for Iowa school districts, see "Institutional Framework Assessment: Iowa Local Governments," published Sept. 9, 2024, on RatingsDirect.

Environmental, social, and governance

We analyzed the district's environmental, social, and governance factors and consider them neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that the district will rebuild its reserves as outlined in its long-term financial projections, and its overall debt profile will remain minimal.

Downside scenario

We could lower the rating if the district returns to operating deficits and fails to build reserves to levels that align with those of similarly rated districts.

Upside scenario

We could raise the rating if the district sustains available reserves at higher levels given its above-average economic metrics and affordable debt burden.

Underwood Community School District, Iowa--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.47
Economy	2.0
Financial performance	2
Reserves and liquidity	3
Management	2.60
Debt and liabilities	2.75

Underwood Community School District, Iowa--key credit metrics

	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.	73	73	73	72
County PCPI % of U.S.	84	84	85	80
Market value (\$000s)	651,102	491,293	464,955	453,620
Market value per capita (\$)	165,296	124,726	112,091	111,181
Top 10 taxpayers % of taxable value	15.7	11.8	12.0	--
County unemployment rate (%)	3.2	3.0	3.0	4.1
Local median household EBI % of U.S.	128	128	126	--
Local per capita EBI % of U.S.	110	110	109	--
Local population	3,939	3,939	4,148	4,080
Financial performance				
Operating fund revenues (\$000s)	11,370	10,594	9,953	9,245
Operating fund expenditures (\$000s)	10,254	10,811	10,230	9,360
Net transfers and other adjustments (\$000s)	-	14	-40	75
Operating result (\$000s)	1,116	-203	-317	-40
Operating result % of revenues	9.8	-1.9	-3.2	-0.4
Operating result three-year average %	1.6	-1.8	-0.1	1.0
Enrollment	798	798	801	768
Reserves and liquidity				
Available reserves % of operating revenues	11.7	1.7	4.7	9.2
Available reserves (\$000s)	1,325	176	470	849

Underwood Community School District, Iowa--key credit metrics

	Most recent	2023	2022	2021
Economy				
Debt and liabilities				
Debt service cost % of revenues	--	6.7	7.4	44.3
Net direct debt per capita (\$)	3,712	736	888	1,090
Net direct debt (\$000s)	14,621	2,898	3,682	4,449
Direct debt 10-year amortization (%)	43	100	--	--
Pension and OPEB cost % of revenues	--	4.0	4.0	4.0
NPLs per capita (\$)	--	781	621	--
Combined NPLs (\$000s)	--	3,075	2,574	--

Financial data might reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US\$12.52 mil GO sch bnds ser 2025 due 06/01/2045	
Long Term Rating	A+/Stable
Ratings Affirmed	
Local Government	
Underwood Comnty Sch Dist, IA Unlimited Tax General Obligation	A+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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