Research Update:

Davis County Community School District, IA Series 2026 Tax Bonds Assigned 'A+' Rating; Outlook Stable

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Overview

- S&P Global Ratings assigned its 'A+' rating to Davis County Community School District, Iowa's anticipated $13.67 million series 2026 school infrastructure sales, services, and use tax bonds.
- The outlook is stable.

Rationale

Security

A first-lien pledge of state-collected retail sales and service tax revenue for school infrastructure purposes secures the bonds. We rate the bonds under our criteria: "Priority-Lien Tax Revenue Debt," Oct. 22, 2018, factoring in the pledged revenue strength and stability and the general credit quality of the district where taxes are distributed and collected, known as the obligor's creditworthiness (OC).

The bonds will finance heating, ventilation, and air conditioning (HVAC) improvements, the demolition of the old high school, and contingencies and smaller project needs.

Credit highlights

The district's enrollment has declined in recent years, and management expects this will continue due to local demographic shifts. However, the positive per-pupil-funding trend has mostly offset enrollment decreases and supported overall revenue growth. Total revenue dropped 2% between fiscal 2024 and fiscal 2025, but since fiscal 2021 revenue has increased by 14%. Given this, we expect stable-to-increasing per-pupil revenue will support adequate maximum annual debt service (MADS) coverage.

Key credit considerations include our view of the district’s:

- Very strong economic fundamentals, as reflected by a statewide revenue base and distributions to districts based on certified enrollment;

- Low revenue volatility for sales-and-use taxes;
- Adequate coverage, with a 1.3x additional bonds test (ABT); we note the district's privately placed series 2021 sales tax bonds are structured with a lower 1.2x ABT. Maximum annual debt service (MADS) coverage is 1.27x based on fiscal 2025 pledged revenue, and state projections indicate coverage will remain above the most restrictive ABT at an estimated 1.47x in fiscal 2029; and
- Close obligor relationship.

Environmental, social, and governance

We analyzed the district's environmental, social, and governance factors and view them as neutral in our credit analysis. The district's cybersecurity practices align with those of peers.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that pledged revenue will likely provide sufficient annual debt service coverage (DSC) due to the lack of future issuance plans, increasing per-pupil allocations, stable enrollment, and external liquidity provided by the district's debt service reserve fund (DSRF) that is established in this issuance.

Downside scenario

We could lower the rating if statewide sales tax collections decrease or enrollment falls to such a degree that pledged revenue also significantly deteriorates, leading to lower-than-expected DSC.

Upside scenario

The possibility of an upgrade is limited, given the adequate coverage, although we could take a positive rating action if the district sustains a stronger DSC and ABT.

Credit Opinion

The Iowa Secure an Advanced Vision for Education

The Iowa Secure an Advanced Vision for Education (SAVE) fund establishes a statewide one-cent sales tax for school infrastructure authorized through Jan. 1, 2051. The Iowa Department of Revenue transfers the amount of tax revenue attributable to each school district remitted in the preceding month on a per-pupil basis. The per-pupil calculation compares a district's actual, in-district certified enrollment with total statewide enrollment. All districts receive the same level of per-pupil revenue, most recently $1,323 for fiscal 2025 and projected at $1,358 for fiscal 2026.

Districts can use their individual shares of SAVE revenue for school infrastructure purposes or property tax relief; they cannot use the funds for general operations. The district's electorate has adopted a broadly written revenue purpose statement that directs the school board to sales tax revenue first for sales tax debt service, and then for purposes the Iowa Code permits, including property tax relief. Absent a voter-approved broad revenue purpose statement, state statutes require districts to use SAVE funds for property tax relief first, essentially subordinating revenue bonds.

Economic fundamentals: Very strong

Pledged revenue comes from a statewide revenue base, with distributions to districts based on certified enrollment; therefore, we use the state as the economic foundation for our analysis. We typically expect Iowa to experience slow, yet stable, growth during expansionary economic periods while also exhibiting shallower contractions in recessionary periods. Iowa's population, currently 3.2 million, has increased at a slower rate than that of the nation. State projections have Iowa’s total employment growth at 0.64% from 2026 to 2029, trailing the national average of 1.49% during the same period. Per-capita effective buying income is 93% of the national level. For further information, see our full analysis on Iowa, Oct. 9, 2024.

Volatility: Low

We assess revenue volatility to determine the likelihood of revenue availability during different economic cycles. We have two levels of volatility assessments: macro and micro. Our macro volatility assessment begins with an assessment of the historical volatility of economic activity taxed, including an analysis of societal, demographic, political, and other factors that could greatly influence these activities. On a micro volatility level, there is no external influence that we think weakens the macro assessment of low volatility. Under the funding formula, even districts with decreasing enrollment--if not significantly so--have experienced flat-to-increasing annual year-over-year revenue; therefore, these districts report stable DSC.

Coverage and liquidity: Adequate

The requirement that SAVE revenue cannot be used to support general operations typically results in weak-to-adequate DSC. Districts tend to structure bonds with weak ABT, typically of 1.2x-1.3x, providing a greater ability to issue bonds and fund capital projects.

Davis Community School District's ABT is 1.3x. Most districts eventually issue additional debt to the ABT's fullest extent, and we factor this into our analysis and our expectation of future DSC. The series 2026 bonds are supported by a DSRF, providing additional liquidity.

MADS coverage is currently 1.27x, using actual pledged-revenue collections for fiscal 2025 totaling $1,478,093 and MADS of $1,165,970, which occurs in fiscal 2027. Enrollment has decreased by 88 students, or 7.5% over the past decade. Management expects this trend will continue, which supports our view of adequate DSC. Based on our stress scenarios, we determine the district would still have 1x MADS coverage with 859 students, or a loss of 223 (a 21% decrease). In addition, if certified enrollment remains constant at 1,082, we calculate that per-pupil revenue could decrease to $1,078 and that the district would still have 1x MADS coverage. We expect coverage will remain adequate due to the likelihood of continued per-pupil revenue growth. Fiscal 2025 actual statewide disbursements were $639.8 million, up $200 million or 45% compared with 10 years ago. The Iowa Department of Education estimates fiscal 2026 disbursements will reach $652.7 million. We recognize that districts can sustain modest enrollment decreases and still generate revenue growth because of historically increasing per-pupil revenue.

Obligor linkage: Close

Under our criteria, the priority-lien rating links with the obligor's general creditworthiness because we view overall creditworthiness as a key determinant of an obligor's ability to pay all obligations, including special tax-secured bonds. In our opinion, rated debt bond provisions are less restrictive with respect to revenue collection and distribution. The district directly receives SAVE revenue from the Iowa Department of Revenue and is responsible for paying debt service. In our view, pledged revenue flow is not substantially removed from the district's direct control.

Located in Davis County, southeast Iowa, the district includes the cities of Bloomfield, Drakesville, Floris, and Pulaski. The local economy is diverse, supported by a strong agricultural base, manufacturing, and service sectors, with a positive five-year growth trend in gross county product (GCP) driven by advancements in agricultural productivity and gradual manufacturing expansion.

Enrollment has declined in recent years, primarily due to lower birth rates and larger graduating classes. Since enrollment is crucial for state revenue allocation, management expects revenue declines; however, it anticipates offsetting this through attrition and state aid programs that could generate about $400,000 in additional operating revenue. With realistic assumptions and a history of positive revenue growth, we expect the district's financial performance to be stable in the near term.

After planned spending in fiscal years 2023 and 2024, the district intends to utilize the cash reserve levy, which allows it to raise revenue without voter approval. Management expects a $152,000 deficit in the general fund for fiscal 2025, or 0.9% of budgeted general fund revenue. In fiscal 2026, the district budgets for a 2% surplus and its five-year financial forecast shows structured general fund budgets slowly adding to reserves. Management’s formal policy is to maintain an unrestricted, uncommitted general fund balance within the 15%-20% target range, with 10% being a minimum goal, which aligns with benchmarks set by state peers. In addition to the formal fund balance policy, the district adheres to statutory debt limits and investment policies, reports monthly budget-to-actuals to the board, and maintains a five-year financial and long-term capital plan. We expect the district's debt and liabilities to remain manageable, with no additional near-term debt plans. For more information please see our article, Nov. 13, 2025.

Davis County Community School District, Iowa--key credit metrics

Economic data	
Economy	Very Strong
EBI level per capita % of U.S.	93
Statewide revenue base	Yes
Population (obligor)	3,216,993
Population (MSA)	Not Applicable
Financial data	
Revenue volatility	Low
Coverage and liquidity	Adequate
Baseline coverage assessment	MADS
MADS coverage (x)	1.27
MADS year	2027
Annual debt service coverage (x)	2.00
2-year pledged revenue change (%)	4.08
Bond provisions	
ABT (x)	1.30
ABT type	MADS
ABT period	Historical
DSRF type	Lowest of 3-pronged test
Obligor relationship	
Obligor linkage	Close
PL rating limit (number of notches above OC)	1

Davis County Community School District, Iowa--key credit metrics

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income.
MSA--Metropolitan statistical area. MADS-Maximum annual debt service. ABT--Additional bonds test.
DSRF--Debt service reserve fund. PL--Priority lien. OC--Obligor creditworthiness. N/A--Not available.
3-pronged test--MADS, 10% of principal, or 125% of average annual debt service.

Ratings List	
New Issue Ratings	
US$13,670,000 Davis County Community School District, Iowa, School Infrastructure Sales, Services and Use Tax Revenue Bonds, Series 2026, dated: Date of Delivery, due: June 01, 2050	
Long Term Rating	A+/Stable
New Rating	
Local Government	
Davis Cnty Comnty Sch Dist, IA School Infrastructure Sales Tax	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.