S&P Global Ratings

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Research Update:

Bondurant-Farrar Community School District, IA Series 2026 GO School Bonds Assigned 'A+' Rating

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Primary Contact

Andrew J Stafford
New York
212-438-1937
andrew.stafford1@spglobal.com

Secondary Contact

Charlie G Salmans
Chicago
(1) 312-233-7039
charlie.salmans@spglobal.com

Overview

- S&P Global Ratings assigned its 'A+' long-term rating to Bondurant-Farrar Community School District, Iowa's $18.57 million series 2026 general obligation (GO) school bonds.
- At the same time, we affirmed our 'A+' long-term rating and underlying rating (SPUR) on the district's existing GO bonds.
- The outlook is stable.

Rationale

Security

Revenue from the district's unlimited ad valorem property tax secures the bonds. Voters authorized $48 million in GO bonds in November 2023, and this issuance represents the second of two GO debt issuances, with the first tranche in the amount of $28.64 million issued in the fall of 2024. Proceeds from the series 2026 bonds will help finance the construction, furnishing, and equipping of a new elementary school building, a classroom addition to the high school building, a baseball/softball athletic facility, and tennis/pickleball courts as well as other site improvements.

Credit highlights

The rating reflects our view of a district serving a growing service area economy and its ability to sustain healthy reserve levels, offset to some extent by a rising debt burden and associated debt service requirements as it manages through its capital improvement program. Bondurant-Farrar Community School District is located in central Iowa in the northeastern corner of the Des Moines metropolitan area. As with other growing Des Moines metropolitan suburbs, the district's population has increased by an average rate of 5.49% per year since 2020, and it expects to see continued growth in residential construction, with 100-150 new homes and apartments to be added to the housing supply in the coming year. Notably, fiscal 2026 is the first year that the district will open to out-of-district students, with an anticipated 40 such students enrolling. Taxable valuation has grown by 74% since fiscal 2020, largely driven by new constructions. It is primarily residential (52.3%), followed by commercial (33.0%). The tax base is concentrated, with the top 10 taxpayers accounting for 46% of total taxable valuation (excluding tax increment financing), which is a credit constraint in our view, although we note stability of the district's top taxpayer, Amazon, as a stabilizing factor. Larger employers in the city of Bondurant include an Amazon fulfillment center (with approximately 2,100 employees), the school district itself (343), and a Facebook data center (300). Amazon signed a guaranteed assessment with the county in 2022 that steps up over five years to a guaranteed minimum of $200 million. We anticipate that the local economy will remain a credit strength. A recent tax appeal by Amazon is likely to provide a $600,000 hit to all district funds in fiscal 2026. We expect a minimum of $140,000 in state aid will be recouped to the general fund based on the appeal.

The district still possesses flexibility from its available reserves despite intentional drawdowns in fiscal 2023 and fiscal 2024, and our expectation for further drawdowns in fiscal 2025 and 2026. Certified enrollment increased 1.79% in 2024, 4.86% in 2023, and 1.88% in 2022, correlating with a growing population. The district posted a $498,000 general fund deficit in fiscal 2024 after a $2.1 million general fund deficit in fiscal 2023. The fiscal 2023 deficit was due to a deliberate drawdown for the new junior high building as well as hiring additional staff. Enrollment-tied state aid accounted for 63% of operating revenue, and local sources (mostly property taxes) for 23% in fiscal 2024. For the next few years, the district plans to continue to draw down on reserves, which were built up over the last few years, for planned capital investments and staffing needs to accommodate growing enrollments. The district's fiscal 2024 results were in line with expectations, with a deficit of approximately $500,000, or about 1.6% of estimated expenditures. The district plans for a deficit of approximately $140,000 in fiscal 2025 and $540,000 fiscal 2026. Management projects reserves (i.e., assigned and unassigned general fund balance as a percentage of general fund revenues) to hover around 10% in fiscal 2025 and 2026 and to reach the trough at around 9% in fiscal 2027. It intends to stay in compliance with the 7%-17% solvency target and believes the district has flexibility to cut costs should budgetary challenges arise. We believe larger or longer operating deficits, leading to weaker reserves beyond what is expected, could pressure the rating.

After this issuance, the district's debt burden is high and will continue to be a limiting credit factor. However, we expect the debt burden relative to market value and on a per capita basis will remain generally consistent, given the expectation of continued growth in population and tax base.

The long-term rating further reflects our view of the following:

- The district is an expanding community with healthy population and tax base growth as well as very strong median household effective buying income and extremely strong market value per capita. It benefits from full access to the broad and diverse Des Moines metropolitan statistical area economy.
- Available reserves have been steady, although they are expected to weaken somewhat due to planned drawdowns in the next few years.
- The district's financial policies and practices include monthly budget-to-actual reporting shared with the board, formal long-term financial planning using the Forecast5 model, a five-year capital improvement plan that identifies both sources and uses of funds, the practice of complying with state requirements for investment management, and an informal reserve policy with a target to maintain a 7% to 17% of solvency ratio to manage cash flow needs, but lack of debt management policy outside of state statute.

- The district's debt burden is high and amortization is slower than average, with further additional debt plans slated for the next couple of years. However, the district's pension and other postemployment benefits costs are manageable.
- For more information on our institutional framework assessment for Iowa school districts, see "Institutional Framework Assessment: Iowa Local Governments," Sept. 9, 2024.

Environmental, social, and governance

We view environmental, social, and governance factors as neutral in our rating analysis.

Outlook

The stable outlook reflects our expectation that the district's economy and enrollment will continue to grow, supporting stable state aid and local tax revenue sources, and its reserve levels will remain in compliance with the 7% to 17% solvency ratio target.

Downside scenario

We could lower the rating if the district's financial performance worsens beyond what the district has planned for, resulting in reserves that are no longer comparable with those of similarly rated peers, or if future debt issuances are significantly higher than what has been authorized.

Upside scenario

We could raise the rating if the district's economy diversifies, reserves improve to levels commensurate with higher-rated peers', and its debt burden moderates significantly.

Bondurant-Farrar Community School District, Iowa--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.76
Economy	2.5
Financial performance	3
Reserves and liquidity	2
Management	2.30
Debt and liabilities	4.0

Bondurant-Farrar Community School District, Iowa--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	143	--	143	149
County PCPI % of U.S.	95	--	95	96
Market value ($000s)	2,131,088	1,503,923	1,275,602	1,052,731
Market value per capita ($)	190,021	134,099	119,394	123,822
Top 10 taxpayers % of taxable value	46.3	42.0	38.5	--
County unemployment rate (%)	3.4	3.1	2.9	2.8
Local median household EBI % of U.S.	145	145	132	135

Bondurant-Farrar Community School District, Iowa--key credit metrics

	Most recent	2024	2023	2022
Local per capita EBI % of U.S.	110	110	96	108
Local population	11,215	11,215	10,684	8,502
Financial performance				
Operating fund revenues ($000s)	--	31,609	29,392	28,369
Operating fund expenditures ($000s)	--	32,081	31,477	27,351
Net transfers and other adjustments ($000s)	--	(25)	(49)	(35)
Operating result ($000s)	--	(497)	(2,134)	983
Operating result % of revenues	--	(1.6)	(7.3)	3.5
Operating result three-year average %	--	(1.8)	1.1	4.9
Reserves and liquidity				
Available reserves % of operating revenues	--	13.5	13.2	17.3
Available reserves ($000s)	--	4,273	3,890	4,911
Debt and liabilities				
Debt service cost % of revenues	--	13.0	15.5	13.5
Net direct debt per capita ($)	8,410	4,835	5,443	6,054
Net direct debt ($000s)	94,321	54,223	58,150	51,472
Direct debt 10-year amortization (%)	44	58	--	--
Pension and OPEB cost % of revenues	--	5.0	4.0	4.0
NPLs per capita ($)	--	698	908	896
Combined NPLs ($000s)	--	7,825	9,699	7,614

Financial data may 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. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. 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$18.57 mil GO sch bnds ser 2026 due 06/01/2046	
Long Term Rating	A+/Stable
Ratings Affirmed	
Local Government	
Bondurant-Farrar 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.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.