

Research Update:

South Hamilton Community School District, IA Series 2026 Infrastructure Tax Revenue Bonds Assigned 'A' Rating

April 10, 2026

Overview

- S&P Global Ratings assigned its 'A' long-term rating to [South Hamilton Community School District](#), Iowa's \$7.5 million series 2026 school infrastructure sales, services, and use tax revenue bonds.
- The outlook is stable.

Rationale

Security

A first lien on a statewide one-cent sales and services tax distributed to school districts on a per pupil basis for school infrastructure secures the bonds. We rate the bonds under our [priority-lien tax revenue debt criteria](#), Oct. 22, 2018, which considers pledged revenue strength and stability and the district's creditworthiness.

The district will use the bond proceeds to fund the construction of an auxiliary gym addition and a debt service reserve fund at the standard three-pronged test (the lowest of maximum annual debt service [MADS], 10% of principal, or 125% of average annual debt service).

Credit highlights

The rating reflects our view of the district's positive pledged revenue trend, supported by state per pupil revenue distribution growth. Partly offsetting this, in our view, are the district's relatively small enrollment base and history of enrollment decline that, while modest, could continue given the local economy's limited growth prospects. Coverage is also lower than what we typically see with higher-rated peers.

Certified enrollment has declined by 4% in the past 10 years (26 students), which management attributes to lower birth rates. While grade sizes are fairly level and management reports of high demand for housing (partly as a result of the district's strong academic reputation), the local population is declining (3.8% since 2013) and management reports of a lack of developable land

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for housing given that farms surround residential areas. We believe these factors could lead to further enrollment declines.

Residents do have access to employment opportunities 20 miles south in Ames, home of Iowa State University, and 18 miles north in Webster City, a small city with employment opportunities mainly in manufacturing and agriculture-related industries. Management also reports of minimal competition from private schools. Furthermore, despite the declining enrollment trend, pledged revenue has grown by 33% over the past 10 years as a result of per pupil revenue growth.

Based on our stress scenarios, assuming per pupil revenue distributions remain flat at the state's \$1,358 projection for fiscal 2026, we determine the district would still have 1x MADS coverage with 485 students, or a loss of 140 (22%). In addition, if certified student enrollment held at 625, we calculate that per pupil revenue could decrease to \$1,053 and the district would still have 1x MADS coverage.

The rating further reflects our view of the district's:

- Very strong economic fundamentals, reflecting the depth and breadth of the statewide pledged revenue base. Iowa's population (about 3.2 million) and employment growth have trailed those of the nation, although unemployment has historically remained below the U.S. rate. Iowa's per capita effective buying income equals 93% of the national level.
- Low revenue volatility, reflecting that the volatility of the statewide base has been consistent with that of national retail and food services sales, performing in a relatively stable manner performance across economic cycles. At the local level, we see no risks warranting a lower score. Districts with modest enrollment declines have generally reported flat-to-growing year-over-year revenue and stable debt service coverage.
- Weak-to-adequate coverage and liquidity. Fiscal 2025 collections provide 1.22x MADS coverage, though, using the most recent enrollment count of 625 students from this year and the state's \$1,358 per pupil projection for fiscal 2026, coverage improves to 1.29x. MADS occurs in fiscal 2027, though estimated debt service is roughly level until the final maturity in 2042. The district has no additional parity debt plans. Most Iowa school districts tend to issue debt to the additional bonds test's full extent given that pledged revenue can be used only for capital or debt service.
- Direct receipt of pledged revenue from the state, responsibility for paying debt service, and lack of benefit from a limited scope of operations or extraordinary expenditure flexibility, which together limit the rating to one notch higher than the obligor's creditworthiness.
- Generally positive operating performance, supporting healthy reserves close to 30% of operating revenues in the past five years. The district is intentionally drawing down reserves to reduce its unspent budget authority. Management expects deficits of around 3% to 4% of operating revenue in fiscal years 2026 and 2027 mainly as a result of one-time spending on curriculum and technology, which, if realized, would reduce reserves to around 20% of operating revenue and slightly more than \$2 million. Management expects reserves will stabilize around this level. We expect finances will likely remain healthy, supported by the district's long-term financial planning, track record of sound budget management, and commitment to maintaining reserves at 15% to 20% of operating revenue or higher, as reflected in a recently adopted formal policy. Local income levels exceed the U.S. average, though the local economy is concentrated in industries we consider volatile, mainly agriculture.

Environmental, social, and governance

Our internal climate data indicates that Hamilton County, where the district is located, is facing heightened water stress exposure compared with the U.S. This poses a long-term risk to the local economy given its reliance on agriculture, with potential implications for enrollment and therefore pledged revenue, though management is aware of no water shortages in the area. Social and governance factors are neutral within our credit analysis.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that per pupil revenue growth will likely support weak-to-adequate coverage.

Downside scenario

We could lower the rating if statewide sales tax collections were to decrease or if certified enrollment were to drop to such a degree that pledged revenue also significantly deteriorated, leading to lower-than-expected debt service coverage. We could also do so if the obligor's creditworthiness were to significantly weaken.

Upside scenario

We could take a positive rating action if enrollment and the local population were to show greater stability or growth over a sustained period.

South Hamilton Community Schol District, Iowa--key credit metrics

Economic data

Economy	Very strong
EBI level per capita as % of U.S.	93
Statewide revenue base	Yes
Population (obligor)	3,586
Population (statewide)	3,216,993

Financial data

Revenue volatility	Low
Coverage and liquidity	Weak-adequate
Baseline coverage assessment	MADS
MADS coverage (x)	1.22
MADS year	2027
Annual debt service coverage (x)	N.M.
Two-year pledged revenue change (%)	6.20

Bond provisions

ABT (x)	1.30
ABT type	MADS
ABT period	Historical
DSRF type	Lowest of three-pronged test

Obligor relationship

Obligor linkage	Close
PL rating limit (number of notches above OC)	1

South Hamilton Community Schol District, Iowa--key credit metrics

Economic data

Economy **Very strong**

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

Ratings List

New Issue Ratings

US\$7,500,000 South Hamilton Community School District, Iowa, School Infrastructure Sales, Services and Use Tax Revenue Bonds, Series 2026, dated: Date of Delivery, due: June 1, 2042

Long Term Rating A/Stable

New Rating

Local Government

South Hamilton Community School District, IA Sch Infra, Sales, Service & Use Tax Sales Tax Revenue 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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