

Research Update:

South Hamilton Community School District, IA Tax Revenue Bond Rating Affirmed At 'A'; Off CreditWatch Negative

June 23, 2026

Overview

- S&P Global Ratings affirmed its 'A' underlying rating (SPUR) on **South Hamilton Community School District**, Iowa's \$7.35 million series 2026 school infrastructure sales, services, and use tax revenue bonds, and removed the rating from CreditWatch, where it was placed with negative implications on May 13, 2026.
- The outlook is stable.
- The removal from CreditWatch reflects our view that, while recently enacted legislation will likely reduce debt service coverage (DSC) in the near term, coverage will remain consistent with the 'A' rating, given the district's extension of the series 2026 bonds' amortization schedule.

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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.

Senate File (SF) 2472, signed by the governor on May 18, 2026, incrementally increases the share of the 1.0% sales tax that is diverted for property tax relief to 25.0% in fiscal 2031 from 7.1% in fiscal 2026. We expect this legislation will generally reduce DSC; therefore, we placed all Iowa school district sales tax bond ratings on CreditWatch with negative implications on May 13, 2026. (For more information, see our [report](#), May 13, 2026.)

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). When we initially rated the series 2026 bonds, the anticipated principal amount was \$7.5 million and the final

maturity was June 1, 2042. In response to SF 2472, the district slightly lowered the principal amount and extended the final maturity to June 1, 2050. The bonds have not yet closed.

Credit highlights

Although SF 2472 will likely lead to a significant drop in the district's pledged revenue, our coverage assessment remains weak-to-adequate, reflecting our expectation that MADS coverage will remain above or just below the district's 1.30x additional bonds test (ABT).

To account for SF 2472, we applied stress tests assuming different enrollment and revenue scenarios, such as if enrollment declines at a similar pace as it has in recent years, and coverage remains consistent with the rating. The series 2026 bonds are structured with MADS that decreases annually from fiscal 2028 to fiscal 2031, leading to MADS coverage that generally remains close to 1.30x during SF 2472's five-year phase-in.

Offsetting factors include the district's relatively small enrollment base and history of falling enrollment that, although modest, could continue given the local economy's minimal growth prospects. In the past 10 years, enrollment has dropped by 4% (or 26 students), which management attributes to lower birth rates. Grade sizes are fairly level and management reports high demand for housing (partly due to the district's strong academic reputation); however, the local population is modestly shrinking (2% since 2014) and management reports a lack of developable land for housing, given that farms surround residential areas. We believe these factors could lead to further enrollment decreases.

Residents 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 jobs mainly in manufacturing and agriculture-related industries. Management also reports minimal competition from private schools.

The rating further reflects our view of the following factors:

- Very strong economic fundamentals reflect 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 reflects that statewide retail sales have been consistent with national retail and food services sales, performing in a relatively stable manner across economic cycles. At the local level, we see no risks warranting a lower score. Districts with modest downturns in enrollment generally report flat-to-increasing year-over-year revenue and stable DSC, although SF 2472 will likely interrupt this trend during its five-year phase-in.
- Weak-to-adequate coverage and liquidity. The district has no additional parity debt plans. Most Iowa school districts tend to issue debt to the full extent of the ABT, 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 together limit the rating to one notch higher than the district's creditworthiness.
- Generally positive operating performance supports 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 about 3% to 4% of operating revenue in fiscal years 2026 and 2027, mainly as a result of one-time spending on curriculum and technology; this would reduce reserves to slightly more than \$2 million, or about 20% of

operating revenue. 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 keeping reserves at 15% to 20% of operating revenue or higher, per its recently adopted formal policy. Local income levels exceed the U.S. average, although 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, faces heightened water stress exposure relative to the U.S. This poses a long-term risk to the local economy given its reliance on agriculture, and could potentially affect enrollment and pledged revenue, although management is not aware of any water shortages in the area. Social and governance factors are neutral within our credit analysis.

Outlook

The stable outlook reflects our expectation that, despite the change brought by SF 2472, the district’s MADS coverage will remain supportive of the rating as revenues are diverted.

Downside scenario

We could lower the rating if pledged revenue deteriorated significantly as a result of decreases in statewide sales tax collections, future legislative changes reduced net distributions, or downturns in certified enrollment lead to lower-than-expected coverage. We could also lower the rating if the district's creditworthiness were to significantly weaken.

Upside scenario

While unanticipated during the two-year outlook period, we could take a positive rating action if enrollment and the local population show greater stability or growth over a sustained period.

South Hamilton Community School 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	ABT
MADS coverage (x)	1.33
MADS year	2028
Annual debt service coverage (x)	N.M.
Two-year pledged revenue change (%)	6.20

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

Economic data

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

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

Outlook Action

	To	From
Local Government		
South Hamilton Community School District, IA Sch Infra, Sales, Service & Use Tax Sales Tax Revenue	A/Stable	A/Watch Neg

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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