MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns Aa3 to Highland Community School District, IA's GOs; affirms Aa3 issuer rating

11 Aug 2026

New York, August 11, 2026 -- Moody's Ratings (Moody's) has assigned a Aa3 rating to Highland Community School District, IA's General Obligation School Bonds, Series 2026 with a proposed par amount of around $10 million. We also affirm the district's Aa3 issuer ratings. Following the sale, the district will have around $11 million in total debt outstanding.

RATINGS RATIONALE

The district benefits from the proximity to Iowa City with resident income around 130%, above Aa-medians. The district's financial position remains strong with a small surplus in fiscal 2025 (year-end June 30) resulting in an available fund balance ratio of 50% of revenues and a liquidity ratio of 60%. Fiscal 2025 available general fund balance also remained strong at 21% of revenues.

In fiscal 2026, overall and general fund reserves are expected to decline, with available fund balance projected to fall to approximately 30% of revenues and available general fund balance to around 15%. The decline reflects planned operating deficits associated with higher instructional and special education expenditures, as well as a reduction in debt service fund reserves following the district's prepaying activities and preparation for the current bond issuance.

In fiscal 2027, governmental and general fund balances are expected to decline further, with overall available fund balance projected at approximately 10% of revenues and available general fund balance at around 7%. Reserve pressure will be driven by continued operating deficits, in part due to unfunded special education expenditures, and the absence of a debt service levy to support debt service payments on the current issuance. Because litigation delayed final resolution of the voter-approved referendum authorizing the current issuance, management was unable to place a debt service levy in time to fund fiscal 2027 principal and interest payments. With the debt service levy, the overall available fund balance would otherwise have remained closer to 20% of fund balance.

In fiscal 2028, governmental and general fund balances are expected to decline, with overall and general fund available fund balance ratios projected below 10% and 5%, respectively. Beginning in fiscal 2028, management expects to utilize the district's cash levy authority, which is projected to generate approximately $600,000, then over $1.2 million annually afterwards to offset special education expenditures and rebuild reserves. The debt service levy is anticipated to be used to fund its principal and interest general obligations. Management intends to continue utilizing the cash levy until total available fund balance exceeds the district's 20% solvency threshold and ultimately expects general available fund balance to return to at least 20% over the longer term.

The district's long-term liabilities ratio was approximately 175% in fiscal 2025. The district expects to issue an additional $5 million of debt in fiscal 2028 to use the remaining authorized bond issuance from the referendum. The long-term liabilities ratio is expected to decline to around 160% in fiscal 2027 with an increase to over 200% in fiscal 2028. The district had a moderate 3 year annualized decrease in enrollment of 3% in the 2025-2026 school year with student enrollment around 510 students.

The Aa3 GOULT rating is the same as the issuer rating because the county has pledged its full faith, credit and taxing power for repayment of the bonds.

RATING OUTLOOK

We do not assign outlooks to local governments with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Measurable strengthening of the local economy, including tax base growth and economic indicators more consistent with higher-rated peers

- Maintain available fund balance and liquidity ratios above 50%

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability or unwillingness to levy the cash levy and debt service levy by fiscal 2028 at rates consistent with current financial projections

- Available fund balance declining below 20%, coupled with the absence of an obtainable plan to replenish reserves.

PROFILE

Highland Community School District is located in southeast Iowa, approximately 20 miles south from Iowa City and has a population of approximately 3,900. The district primarily serves the cities of Riverside and Ainsworth and unincorporated areas of Washington and Johnson counties. The district offers comprehensive educational programs for students in pre-kindergarten through twelfth grade with an enrollment of around 510.

METHODOLOGY

The principal methodology used in these ratings was US K-12 Public School Districts published in June 2026 and available at https://ratings.moodys.com/rmc-documents/466688. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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