S&P Global
Ratings

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Research Update:

# Murray Community School District, IA GO Debt Rating Lowered To 'A' On Financial Profile, Reserves; Outlook Stable

September 8, 2026


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## Overview

- S&P Global Ratings lowered its rating on Murray Community School District, Iowa's general obligation (GO) debt to 'A' from 'A+'.
- At the same time, we assigned our 'A' long-term rating to the district's anticipated $2.7 million series 2026 GO bonds.
- The outlook is stable.
- The downgrade reflects a weakening liquidity profile following the district's panned drawdown of reserves in recent years, with balances projected to fall below $1 million before stabilizing at levels we view as comparable with those of similarly rated peers.

## Rationale

### Security

The 2026 GO bonds are secured by an unlimited ad valorem tax pledge. The funds will be used to finance facility improvements, including rebuilding high school classrooms and constructing an addition to facilitate student relocation.

### Credit highlights

The 'A' rating reflects the district's depletion of general fund reserves resulting from a deliberate management strategy to address unspent spending authority. The district has intentionally drawn upon its reserves to fund essential expenditures, including curriculum materials, electrical panel repairs, and technology infrastructure. While the district aims to stabilize reserves at 15%-20% of general fund expenses, this target would be nominally low, below $1 million. We believe this intentional drawdown increases financial risk by reducing the district's liquidity buffer and its capacity to absorb unforeseen costs.

The district is projecting a deficit of approximately $400,000 in fiscal 2026, driven by the increased outlays for critical infrastructure and technology upgrades, along with a strategic inter-fund reallocation. In order to mitigate state-imposed penalties and ensure compliance with regulatory mandates, the district has reclassified approximately $200,000 in expenditures from the SAVE fund to the general fund. This maneuver is part of an effort to reduce the general fund's unspent authorized budget (UAB) from approximately 35% toward a target range of 20%. While this preserves local budgetary authority, it pressures general fund liquidity.

For fiscal 2027, the district's five-year forecast reflects a general fund deficit of $160,000. While this is a more moderate deficit than previously anticipated, the evolving legislative landscape requires the district to manage its unspent authorized budget (UAB) to remain below the 35% threshold. To avoid losing spending authority due to an excess unspent balance, the district may need to strategically utilize general fund expenditures to maintain regulatory compliance. We expect these deficits to persist until the district reaches eligibility to utilize the cash reserve levy, currently projected for fiscal 2029.

The rating is partially offset by the district's ability to maintain stable served enrollment despite long-term declines in certified residential enrollment. By scaling its open enrollment program, the district has successfully used non-resident student influx as a strategic hedge against the erosion of state aid. In addition, the transition to a four-day school week has proven effective in attracting both students and staff.

The rating further reflects our view of the following credit factors:

- The district is located in south-central Iowa, spanning Clarke, Decatur, and Union counties. Characterized by a small dispersed population, the area's economy is primarily rural and agricultural; however, this is partially mitigated by proximity to larger employment hubs in Osceola and Creston. Gross county product per capita and local per capita income levels are below the national averages.
- Based on current five-year financial forecasting, general fund balances are expected to decline through fiscal 2027, which is projected to be the first year the district falls below its 20% reserve threshold. Beyond fiscal 2027, management aims to stabilize reserves within a range of 15% to 20%.
- Management monitors budget-to-actual performance and investments monthly and produces trend-based forecasting. Although the district uses an annually updated long-term financial forecasting model, it does not maintain a formal long-term capital plan. Formal policies govern debt, investments, and reserves (the latter of which are held at 15%–20% of expenditures). We view the issuer's cyber risk mitigation measures as consistent with our view of its credit fundamentals.
- While debt service and pension costs remain manageable, the district's plan to issue approximately $2.7 million in sales tax debt over the coming year is expected to increase net direct debt per capita. However, the well-funded status of the state pension system helps mitigate long-term fixed-cost pressures.
- Recent legislation introduced a shift in school district funding, which we expect will meaningfully reduce school districts' flexibility to address capital needs and worsen our view of the overall predictability. In general, we expect Iowa districts' revenue and expenditure framework will allow for structural balance. Additionally, school districts are required to produce annual audits using generally accepted accounting principle which shows strong transparency. For more information on our institutional framework assessment for Iowa, see "Institutional Framework Assessment: Iowa Local Governments," Sept. 9, 2024.

# Outlook

The stable outlook reflects our view that, while reserves are expected to decline through fiscal 2027, the district's strategic use of open enrollment and eventual eligibility for the cash reserve levy in fiscal 2029 provide a path toward long-term stabilization.

## Downside scenario

We could lower the rating if the district is unable to stabilize financial performance and maintain general fund reserves within policy.

## Upside scenario

We could raise the rating if the district demonstrates sustained structural budget balance, and rebuilds reserves to levels that are in line with those of higher-rated peers.

**Murray Community School District, Iowa--credit summary**

| | |
|---|---|
| Institutional framework (IF) | 2 |
| Individual credit profile (ICP) | 3.27 |
| Economy | 4.5 |
| Financial performance | 4 |
| Reserves and liquidity | 3 |
| Management | 2.35 |
| Debt and liabilities | 2.50 |

**Murray Community School District, Iowa--key credit metrics**

| | Most recent | 2025 | 2024 | 2023 |
|---|---|---|---|---|
| **Economy** | | | | |
| Real GCP per capita as % of U.S. | -- | -- | 77 | 72 |
| County PCPI as % of U.S. | -- | -- | 72 | 71 |
| Market value ($000s) | 184,708 | 152,302 | 128,498 | 126,780 |
| Market value per capita ($) | 123,385 | 101,738 | 82,689 | 80,700 |
| Top 10 taxpayers as % of taxable value | 17.1 | 17.9 | 17.4 | 16.8 |
| County unemployment rate (%) | -- | 3.2 | 2.9 | 2.9 |
| Local median household EBI as % of U.S. | -- | 96 | 95 | 92 |
| Local per capita EBI as % of U.S. | -- | 93 | 90 | 90 |
| Local population | -- | 1,497 | 1,554 | 1,571 |
| **Financial performance** | | | | |
| Operating fund revenue ($000s) | -- | 4,190 | 4,112 | 3,737 |
| Operating fund expenditures ($000s) | -- | 4,314 | 4,241 | 3,831 |
| Net transfers and other adjustments ($000s) | -- | 3 | (109) | (97) |
| Operating result ($000s) | -- | (121) | (238) | (191) |
| Operating result as % of revenue | -- | (2.9) | (5.8) | (5.1) |
| Operating result three-year average % | -- | (4.6) | (4.3) | (2.8) |
| Enrollment | -- | 293 | 274 | 270 |
| **Reserves and liquidity** | | | | |
| Available reserves as % of operating revenue | -- | 24.4 | 28.6 | 38.6 |
| Available reserves ($000s) | -- | 1,024 | 1,177 | 1,443 |

**Murray Community School District, Iowa--key credit metrics**

| Debt and liabilities | | | | |
|---|---|---|---|---|
| Debt service cost as % of revenue | -- | 2.5 | 6.1 | 4.7 |
| Net direct debt per capita ($) | 2,236 | 580 | 592 | 761 |
| Net direct debt ($000s) | 3,347 | 869 | 920 | 1,195 |
| Direct debt 10-year amortization (%) | 35 | 100 | 100 | 100 |
| Pension and OPEB cost as % of revenue | -- | 4.5 | 4.3 | 4.3 |
| NPLs per capita ($) | -- | 381 | 576 | 673 |
| Combined NPLs ($000s) | -- | 571 | 895 | 1,058 |

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$2.700 mil GO sch bnds ser 2026 due 6/1/2046 | | |
| Long Term Rating | A/Stable | |
| **Downgraded** | | |
| | **To** | **From** |
| **Local Government** | | |
| Murray Comnty Sch Dist, IA Unlimited Tax General Obligation | A/Stable | 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.