Research Update:

Gilbert Community School District, IA Bond Rating Outlook Revised To Stable From Negative On 2026 Operating Surplus

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Overview

- S&P Global Ratings revised the outlook to stable from negative and affirmed its 'A+' long-term rating and underlying rating (SPUR) on Gilbert Community School District, Iowa's general obligation (GO) bonds.
- At the same time, we assigned our 'A+' rating with a stable outlook to the district's $5 million series 2026 GO school bonds and its $5 million series 2026 GO school capital loan notes.
- The outlook revision reflects the district's significant budgetary adjustments in the past year, resulting in a healthy fiscal 2026 operating surplus and likely another surplus in fiscal 2027, placing the district's finances on a more stable footing.

Rationale

Security

The bonds and notes are secured by the district's unlimited property tax GO pledge. The bonds are the third issuance of a total $35 million in voter-approved GO debt to build a new elementary school; construct additions to the high school, intermediate school, and middle school; renovate portions of these buildings; and relocate a track. After this issuance, the district will have $8 million in remaining voter-approved GO bond authorization. The notes are being issued to provide further funding for these projects and to fund a transportation facility. The notes will be repaid from a $1.34 per $1,000 of taxable valuation physical plant and equipment levy. However, if this revenue source is insufficient, the district is required to levy property taxes without limit as to rate or amount to cover the deficiency.

Credit highlights

The rating reflects the district's strong economy, bolstered by its proximity to Iowa State University in Ames, and ongoing enrollment growth, which we expect will continue given

significant residential development and population growth. The rating also reflects recent budgetary adjustments that are helping rebuild reserves to healthier levels. Limiting the rating are elevated debt metrics and reserves that we expect will remain weaker than those of higher-rated school districts, particularly the nominal size of reserves.

Recent audited deficits reduced reserves significantly due to staff increases to accommodate enrollment growth, limited cash reserve levy-raising flexibility, and special education costs. The district raised its cash reserve levy by approximately $940,000 in fiscal 2026 and saved at least $320,000 by leaving certain positions unfilled and tightly controlling non-personnel spending according to management. Consequently, unaudited results show a $954,000 operating surplus (4% of operating revenue), a significant improvement from the fiscal 2025 deficit, with reserves strengthening to $1.1 million (4.8%).

Management projects a $2.3 million surplus (9%) for fiscal 2027. This result is supported by $800,000 in spending cuts primarily from staff reductions and decreases in other categories, a $475,000 cash reserve levy increase, and a 40-student increase in net open enrollment this year, which lifts total served enrollment by 1.6% to 1,676. The district also pulled back on salary increases for staff this year to 2.12% compared with generally a 3% to 4% raise in the past. This projected fiscal 2027 result, which we believe is achievable given the magnitude of the budgetary adjustments, would increase reserves to $3.4 million (13.8%).

We expect enrollment will continue to grow given the increasing local population (up 22% in the past 10 years) and given the city of Gilbert reports various developments that involve more than 700 homes, with further phases planned. We expect this and the district's ongoing efforts to rebuild reserves to a 7% to 15% fund balance policy the district is formalizing will support financial stability.

The 'A+' rating further reflects our view of the district's following credit factors:

- Favorable economic profile supported by population growth, local income levels that are well above the U.S. and Story County averages, and an expanding tax base (103% market value growth in the past 10 years). The district is just outside Ames, home to Iowa State University, and is about 40 miles north of Des Moines.
- Strengthening financial profile given recent revenue enhancements, enrollment growth, and spending cuts.
- Management practices that are helping achieve surplus operating results, including an annually updated five-year financial forecast, monthly budget-to-actual and investment reporting to the board, and plans to adopt a 7% to 15% fund balance policy. Although spending exceeded the budget in fiscal years 2024 and 2025, in part due to higher-than-anticipated special education, utility, and snow removal costs, fiscal 2026 spending was 96% of the budget, indicating better budgeting practices. We view the district's cyber risk mitigation measures as consistent with our view of its credit fundamentals.
- Debt metrics that are increasing to high, though, in our view, manageable, levels compared with those of similarly rated school districts. In 2027 and 2028, the district plans to issue $8 million in total remaining GO voter authorization, which we estimate could ultimately increase net direct debt per capita to nearly $8,700 and current costs of debt and liabilities to about 23% of total governmental fund revenue. Net direct debt will be 4.4% of the district's fiscal 2027 market value, or 3.2% when removing sales tax bonds payable from a statewide 1% sales tax, indicating a greater degree of affordability for the local tax base than the per capita metric indicates. The district's private placement debt has no nonstandard events of default or acceleration provisions. Pension 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.

Outlook

The stable outlook reflects the district's demonstrated willingness to reduce spending and raise revenues to achieve fiscal targets, its rising enrollment trend, and use of long-term planning, which we expect will support financial stability through the two- year outlook.

Downside scenario

We could lower the rating if reserves materially weaken due to an operational imbalance or draws for capital.

Upside scenario

Although unanticipated during the two-year outlook, we could take a positive rating action over time if reserves are sustained at levels more consistent with those of higher-rated peers and if debt metrics materially strengthen.

Gilbert Community School District, Iowa--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	3.05
Economy	1.5
Financial performance	3
Reserves and liquidity	4
Management	3.00
Debt and liabilities	3.75

Gilbert Community School District, Iowa--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita as % of U.S.	--	--	88	88
County PCPI as % of U.S.	--	--	77	78
Market value ($000s)	1,669,820	1,487,415	1,181,198	1,142,225
Market value per capita ($)	198,906	177,179	140,971	138,150
Top 10 taxpayers as % of taxable value	8.2	7.5	8.2	8.7
County unemployment rate (%)	2.6	2.9	2.5	2.4
Local median household EBI as % of U.S.	--	132	126	136
Local per capita EBI as % of U.S.	--	122	108	123
Local population	--	8,395	8,379	8,268
Financial performance				
Operating fund revenue ($000s)	--	21,944	20,141	19,336
Operating fund expenditures ($000s)	--	22,658	21,797	20,483
Net transfers and other adjustments ($000s)	--	30	66	(7)
Operating result ($000s)	--	(684)	(1,590)	(1,154)
Operating result as % of revenue	--	(3.1)	(7.9)	(6.0)

Gilbert Community School District, Iowa--key credit metrics				
Operating result three-year average %	--	(5.7)	(4.6)	(1.6)
Enrollment	--	1,620	1,646	1,626
Reserves and liquidity				
Available reserves as % of operating revenue	--	1.1	4.9	13.5
Available reserves ($000s)	--	242	991	2,612
Debt and liabilities				
Debt service cost as % of revenue	--	13.2	13.0	13.4
Net direct debt per capita ($)	8,379	4,362	2,982	3,366
Net direct debt ($000s)	70,341	36,623	24,985	27,833
Direct debt 10-year amortization (%)	37	52	74	--
Pension and OPEB cost as % of revenue	--	4.5	4.5	4.4
NPLs per capita ($)	--	400	629	768
Combined NPLs ($000s)	--	3,361	5,270	6,354

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$5.000 mil GO sch bnds ser 2026 due 6/1/2046		
Long Term Rating	A+/Stable	
US$5.000 mil GO sch cap loan nts ser 2026 due 06/01/2038		
Long Term Rating	A+/Stable	
Outlook Action		
	To	**From**
Local Government		
Gilbert Comnty Sch Dist, IA Unlimited Tax General Obligation	A+/Stable	A+/Negative

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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