

CREDIT OPINION

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Marshal County Central ISD 441, MN

New issuer

Summary

Marshall County Central I.S.D. 441, MN (A1) benefits from a robust financial position, healthy resident income profile and a solid enrollment trend. These strengths are balanced against its relatively small operating size, significant taxpayer concentration and high leverage following an upcoming borrowing.

On September 22 we assigned an initial A1 issuer rating to the district and an A1 to the district's general obligation unlimited tax debt.

Credit strengths

- » Healthy resident income profile
- » Solid enrollment trend
- » Very strong financial reserves

Credit challenges

- » Significant taxpayer concentration
- » Limited operating size
- » Relatively high long-term liabilities ratio and fixed-costs

Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Substantial diversification of the local economy and tax base
- » Sustained enrollment growth

Factors that could lead to a downgrade

- » Weakening of the local economy or tax base
- » Material decline in fund balance or liquidity
- » Increased leverage

Key indicators

Exhibit 1

Marshall County Central Independent School District 441, MN

	2018	2019	2020	2021	A Medians
Economy					
Resident income	114.9%	111.0%	113.7%	N/A	96.2%
Full value (\$000)	\$458,547	\$456,500	\$463,024	\$472,461	\$1,160,791
Population	2,010	2,109	2,111	N/A	13,088
Full value per capita	\$228,133	\$216,453	\$219,339	N/A	\$85,943
Enrollment	404	427	438	430	1,827
Enrollment trend	0.8%	3.1%	4.0%	2.1%	-0.5%
Financial performance					
Operating revenue (\$000)	\$5,402	\$5,744	\$6,292	\$6,376	\$26,991
Available fund balance (\$000)	\$2,202	\$2,358	\$2,181	\$2,468	\$6,298
Net cash (\$000)	\$2,353	\$2,701	\$3,433	\$3,657	\$6,971
Available fund balance ratio	40.8%	41.0%	34.7%	38.7%	23.0%
Net cash ratio	43.6%	47.0%	54.6%	57.3%	26.2%
Leverage					
Debt (\$000)	\$0	\$0	\$0	\$0	\$21,881
ANPL (\$000)	\$12,965	\$10,433	\$12,081	\$15,888	\$48,862
OPEB (\$000)	\$122	\$143	\$207	\$233	\$4,011
Long-term liabilities ratio	242.3%	184.1%	195.3%	252.8%	335.4%
Implied debt service (\$000)	\$0	\$0	\$0	\$0	\$1,428
Pension tread water (\$000)	\$283	\$272	\$266	\$316	\$1,297
OPEB contributions (\$000)	\$1	\$2	\$13	\$15	\$146
Fixed-costs ratio	5.3%	4.8%	4.4%	5.2%	12.8%

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [K12 Median Report](#).

Sources: US Census Bureau, Marshall County Central Independent School District 441, MN's financial statements and Moody's Investors Service

Profile

Marshall County Central is located in northwest Minnesota, approximately 325 miles northwest of the Twin Cities. The district serves over 400 students in a community of approximately 2,100 residents that includes the cities of Newfolden and Viking as well as several surrounding townships. The district operates one high school building and two elementary schools.

Detailed credit considerations

Economy: significant taxpayer concentration; positive enrollment trend

The district's local economy will remain limited given its rural location in northern Minnesota, though residents benefit from relatively easy access to several larger employers in the region. Resident income is healthy at 114% of the national median. Full value per capita is also very strong at about \$245,000, which reflects a large share of agricultural land as well as significant taxpayer concentration from Enbridge Energy, which accounts for about 15% of full value in the latest assessment. The energy company operates a large pumping station in the district as well as several control sites and recently completed construction of its Line 3 crude oil pipeline through the district. The district expects Enbridge's share of the tax base will increase substantially from the new pipeline in the next assessment.

Strong demand from students outside the district is driving a solid 3 year enrollment growth trend of 1% per year through 2022, with additional growth of about 14 students expected in the current year. Open enrollment accounts for nearly one-third of the district's student count. The district notes that a neighboring district closed a nearby school in 2018, and Marshall has been successful in attracting some students based on its comparatively small size. The district's resident enrollment has remained very steady over the past several years.

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Financial performance: limited operations with ample fund balance and liquidity

The district's reserve position will remain very strong and well in excess of peers given management's conservative budgeting and growing revenue. The district is budgeting for balanced operations in fiscal 2023, as some growth in salaries and operating expenses is offset by an increase in revenue. While audited results are not yet available for fiscal 2022, management reports that preliminary figures indicate an operating surplus of about \$300,000. Expenses were stable but revenue increased from enrollment growth that was not budgeted.

The district closed fiscal 2021 (FYE 6/30) with a strong available fund balance ratio of 39% (general fund). Total fund balance, which includes over \$700,000 of restricted funds that the district can use with board approval, is even stronger at \$3.7 million representing 54% of revenue. Management is considering using a portion of the restricted funds for an HVAC project in the near future, but otherwise has no plans to draw on reserves.

The district's scale of operations is limited, which is reflected by its small budget of under \$8 million. State aid, which is largely based on enrollment, is the district's primary source of revenue, comprising nearly 80% of fiscal 2021 operating revenue. Property taxes account for just over 15% of revenue.

Liquidity

The district closed fiscal 2021 with a net cash position of about \$3.7 million, or a strong 57% of revenue. The cash position will also decline with one-time capital spending but remain strong at about 65% of operating revenue.

Leverage: high leverage following upcoming bond issuance

The district's leverage will remain elevated for several years following an upcoming bond issuance with very slow amortization. Inclusive of the new borrowing and corresponding debt service levy, the district's leverage from debt, pensions, and OPEB totals approximately \$3.8 million which is about 467% of revenue. The new issuance will fund a new cafeteria, gym, several classrooms and parking at the district's school buildings to accommodate growth in enrollment. The projects are expected to extend the life of the buildings for many years, and there are no concrete plans for additional debt. Voters approved borrowing for the project at a referendum earlier this year. Inclusive of the new issuance, the fixed-costs ratio will be relatively high at about 23% of operating revenue.

The bulk of Minnesota school districts' pension exposure is associated with the Teachers Retirement Association (MN TRA), and districts typically report their pension information with a lag. The district's fiscal 2021 reporting reflects its share of MN TRA's liabilities as of June 2020. The ANPL rose substantially in fiscal 2021 driven by declining market interest rates but is expected to decline in fiscal 2022 due to investment performance and rising interest rates.

Legal security

The district's general obligation debt is backed by a full faith and credit pledge supported by the authority and pledge to levy a dedicated property tax sufficient to pay debt service unlimited as to rate and amount. In addition, the debt is supported by the State of Minnesota's School District Credit Enhancement Program which provides for an unlimited advance from the state's general fund should the district be unable to meet debt service requirements.

Debt structure

Outstanding debt will consist of \$18.9 million of GOULT bonds after the new issuance. All of the district's debt is fixed rate. Amortization is slow with 24% of the outstanding principal scheduled to be retired within 10 years.

Debt-related derivatives

The district is not a party to any derivative agreements.

Pensions and OPEB

Unfunded pension liabilities represent a material but manageable risk for the district. The district participates in two multiple-employer cost-sharing plans, the General Employees Retirement Fund (GERF) and the Teachers Retirement Association of Minnesota (TRA). Most of its unfunded liabilities are attributable to the TRA.

The district's contribution in fiscal 2021 was equal to about 83% of our Tread Water indicator. The district has an adjusted net pension liability (ANPL) equal to \$16 million, which is equal to about 251% of fiscal 2021 operating revenue based on a market interest rate of 2.7% for the measurement period. All else equal, recent increases in the market interest rate will decrease the ANPL. In comparison, the

reported GASB net pension liability totals about \$3.6 million based on the plan's assumed discount rate or return on pension assets of 7.5%. Failure to earn the pension plans' assumed return on pension assets could result in higher fixed costs in the future.

The district's adjusted net OPEB liability is very modest and is not a major credit factor.

ESG considerations

Marshall County Central I.S.D. 441's Credit Impact Score is (CIS-3), reflecting positive consideration for governance, low exposure to social risks and moderately negative exposure to environmental concerns.

Environmental

Marshall County Central I.S.D. 441's Environmental Issuer Profile Score is (E-3), reflecting moderately negative exposure to environmental risks overall. The city of Newfolden is intersected by a river, and a portion of the district lies within a 100-year floodplain. The city is undertaking flood control projects to mitigate its exposure and allow more land to be developed. The district also has moderately negative exposure to carbon transition risk based on its relatively outsized economic exposure to Enbridge Energy's crude oil pipeline.

Social

Marshall County Central I.S.D. 441's Social Issuer Profile Score is (S-2) reflecting neutral-to-low exposure to social attributes overall. The district's population has grown 10% over the past ten years, though still remains very modest. Resident income is solid compared to the nation, and exposure to risks from education, housing or health and safety concerns is very limited. Housing in the district is very affordable.

Governance

Marshall County Central I.S.D. 441's Governance Issuer Profile Score is (G-1), reflecting positive consideration from the district's ability to attract students and conservative budget management. Enrollment growth is particularly relevant in Minnesota, as the state controls the bulk of school district revenue through a per-pupil funding formula. Favorably, the state has provided for regular annual increases in the funding formula for several years. Marshall also has a levy for local optional revenue, as well as an additional operating referendum that collects about \$331,000 annually and was renewed by voters in 2021 for 10 years. Management's formal fund balance policy requires a minimum of three months of operating expenses.

Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare school district credits.

Exhibit 2

Newfolden Independent School District 441, MN

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	113.7%	10.0%	Aa
Full value per capita (full valuation of the tax base / population)	244,950	10.0%	Aaa
Enrollment trend (three-year CAGR in enrollment)	1.0%	10.0%	Aa
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	32.9%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	48.8%	10.0%	Aaa
Institutional framework			
Institutional Framework	A	10.0%	A
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	466.9%	20.0%	Baa
Fixed-costs ratio (adjusted fixed costs / operating revenue)	22.5%	10.0%	A
Notching factors			
Limited scale of operations	-0.50		
Scorecard-Indicated Outcome			Aa3
Assigned Rating			A1

Sources: US Census Bureau, Newfolden Independent School District 441, Mn's financial statements and Moody's Investors Service

Appendix

Exhibit 3

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau) RPP: US Bureau of Economic Analysis
Full value (\$000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Investors Service
Financial performance		
Operating revenue (\$000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance (\$000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash (\$000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
Leverage		
Debt (\$000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL (\$000)	District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
OPEB (\$000)	District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Investors Service
Implied debt service (\$000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water (\$000)	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contributions (\$000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Investors Service

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