

## CREDIT OPINION

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# Fargo Public School District 1, ND

## Update to credit analysis

### Summary

[Fargo Public School District \(PSD\) 1, ND](#)'s (Aa2 issuer rating, Aa3 GOLT) credit attributes include a diverse and growing economy in the [Fargo](#) (Aa2 stable) and [Moorhead](#) (Aa3) metropolitan area, stable financial operations supported by healthy reserves, an overall growing enrollment trend, and a moderate net direct debt burden. These credit strengths are balanced against challenges including exposure to state budgetary pressures due to reliance on state aid and a high pension burden.

### Credit strengths

- » Large and growing economy favorably located in the Fargo and Moorhead metropolitan area
- » Growing enrollment trend, which factors positively into the state aid distribution formula
- » Stable financial operations supporting healthy operating fund reserves

### Credit challenges

- » Exposure to underfunded state cost-sharing pension plans
- » Exposure to state budgetary pressures due to reliance on state aid

### Rating outlook

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

### Factors that could lead to an upgrade

- » Material and sustained increases in operating reserves
- » Significant moderation of long-term liabilities
- » Sustained increased taxing headroom above key threshold (GOLT)

### Factors that could lead to a downgrade

- » Narrowing of reserves
- » Increase in long-term liabilities

## Key indicators

Exhibit 1

### Fargo Public School District 1, ND

	2019	2020	2021	2022	Aa Medians
<b>Economy</b>					
Resident income	91.1%	94.8%	94.1%	N/A	112.2%
Full value (\$000)	\$8,412,324	\$9,152,725	\$9,670,835	\$10,516,120	\$3,864,784
Population	92,793	94,827	95,077	N/A	31,619
Full value per capita	\$90,657	\$96,520	\$101,716	N/A	\$115,171
Enrollment	11,373	11,382	11,169	11,476	4,288
Enrollment trend	0.6%	0.8%	-0.4%	0.3%	0.1%
<b>Financial performance</b>					
Operating revenue (\$000)	\$182,334	\$212,677	\$203,516	\$211,698	\$71,385
Available fund balance (\$000)	\$34,666	\$34,808	\$40,584	\$43,126	\$18,076
Net cash (\$000)	\$41,168	\$32,994	\$35,088	\$39,673	\$21,642
Available fund balance ratio	19.0%	16.4%	19.9%	20.4%	26.8%
Net cash ratio	22.6%	15.5%	17.2%	18.7%	31.5%
<b>Leverage</b>					
Debt (\$000)	\$97,384	\$87,093	\$92,816	\$94,067	\$51,433
ANPL (\$000)	\$415,772	\$487,215	\$576,454	\$502,017	\$111,819
OPEB (\$000)	\$3,369	\$3,889	\$4,460	\$3,493	\$10,587
Long-term liabilities ratio	283.3%	271.9%	331.0%	283.2%	317.0%
Implied debt service (\$000)	\$6,691	\$7,100	\$6,237	\$6,510	\$3,485
Pension tread water (\$000)	\$14,734	\$13,792	\$18,128	\$10,588	\$2,924
OPEB contributions (\$000)	\$268	\$304	\$272	\$251	\$368
Fixed-costs ratio	11.9%	10.0%	12.1%	8.2%	11.5%

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, Fargo Public School District 1, ND's financial statements and Moody's Investors Service

## Profile

The district covers 57 square miles including much, but not all, of the City of Fargo (Aa2 stable), which is the county seat of Cass County (Aa3 stable) and the largest city in North Dakota (Aa1 stable). District facilities include three high schools, an alternative community school, three middle schools, sixteen elementary schools, two regional treatment facilities, and the Trollwood Performing Arts School. District enrollment is 11,339 in fiscal 2023.

## Detailed credit considerations

### Economy: large, diverse and growing economy serving as economic center of the region

The local economy will remain stable as it is supported by large institutional employers including Sanford Fargo Medical Center (8,651), Essentia Health (5,141 employees) and North Dakota State University (Aa3 stable, 4,363 employees). The district's location within the Fargo-Moorhead metropolitan area and diverse local economy is a credit strength as this area has grown substantially over the past decade and supported solid resident incomes and property wealth.

Enrollment has increased in conjunction with the district's overall growth and, although enrollment gains were muted by the coronavirus pandemic in the 2020-21 school year, officials report an above average increase in the current 2022-23 school year. District management expects enrollment to increase by about 50 to 100 students over the next several years.

### Financial operations: stable financial operations with solid reserves

The district's financial operations will remain healthy given its long history of stability and growth in its primary revenues. The district has maintained stable General Fund reserve levels over the last six fiscal years, with reserves around or over 19% of revenues, exceeding the district's policy to maintain at least 15% of expenditures in reserves. District management reports a modest increase in General

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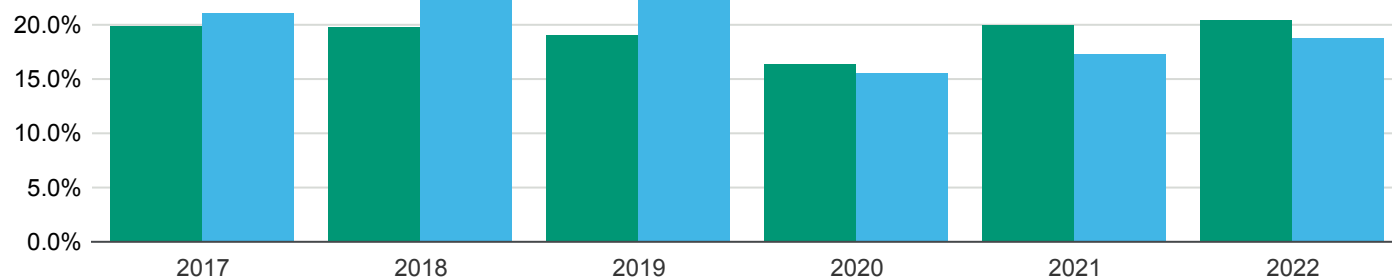
Fund balance in fiscal 2023 mainly due to savings from unfilled positions. For fiscal 2024, the district's preliminary budget calls for balanced operations. The district ran a \$948,000 surplus in audited fiscal 2022, bringing available operating reserves (inclusive of the General Fund, Debt Service Fund, Food Service Fund and Special Revenue Fund) to \$43 million, or a healthy 20% of revenues.

State aid accounts for the largest portion of operating fund revenue and was roughly 49% of fiscal 2022 operating revenue. State aid is distributed on a weighted per pupil basis. State revenue modestly decreased in fiscal 2022; high levels of exposure to state revenue leaves the district vulnerable to state aid cuts or delays in the future. The state of North Dakota adopts biennial budgets; cuts in state aid during the biennium would require the state to amend its budget.

Exhibit 2

### Financial Trends

■ Fund Balance as a % of Revenues ■ Cash Balance as a % of Revenues



Source: Moody's Investors Service

### Liquidity

Net operating cash is solid at \$39.7 million, equal to 19% of operating revenue.

### Leverage: moderate debt burden and elevated pension liabilities

The district's overall leverage will be slightly elevated following the current planned bond issuance. The unfunded liabilities equal 289.7% of operating revenue, largely reflecting its adjusted net pension liability (ANPL) (237.1% of operating revenue) and debt burden (51%). Adjusted fixed costs, inclusive of debt service and retirement contributions, are modest at 8%.

### Legal security

The Series 2023 bonds are limited obligations of the district payable solely from the district's School Building Fund Levy, which may be levied upon all taxable property located in the district at the rate of 26.35 mills.

The Series 2023 bonds are additionally supported by the Aa2 rated State of North Dakota Department of Public Instruction's (NDDPI) school district credit enhancement program.

### Debt structure

All of the district's debt is long-term and fixed rate. Principal amortizes at an average rate with 76% scheduled to be retired within 10 years.

### Debt-related derivatives

The district does not have any exposure to any debt-related derivatives.

### Pensions and OPEB

The district participates in the North Dakota Teachers Fund for Retirement (TFFR), a statewide multiple employer cost-sharing plan. While contributions will likely rise in the future given the trajectory of the plan, we do not foresee a material increase in contributions that would stress the district's budget over the next several years. North Dakota statutes establish local government retirement

contributions as a percent of covered compensation. That statutory constraint will, however, likely contribute to ongoing growth of the unfunded liability leading to higher contributions in the future.

The district's pension liabilities are elevated with ANPL at \$502 million, representing 237% of fiscal 2022 operating revenue. The district's ANPL is much higher than reported pension liabilities because the market interest rates we use to value pension liabilities are far lower than returns assumed by the district's pension plan. In fiscal 2022, the district contributed about \$12.9 million to its plan, equivalent to 4.3% of operating revenue. Failure to realize the investment returns assumed by the plan could result in higher future contributions.

The district offers OPEB in the form of retiree health insurance and reports a liability based on the implied subsidy that stems from retirees who continue to take advantage of this benefit. The adjusted net OPEB liability, using the same discount rate adjustment that we use to measure the ANPL, was \$3.5 million in fiscal 2022, equal to a low 1.6% of operating revenue.

## ESG considerations

### Environmental

Fargo PSD's overall environmental issuer profile score is moderately-negative (E-3). While carbon transition, natural capital, and pollution risks are low, Cass County, where the district is located, is exposed to flooding and extreme precipitation levels. Favorably, to reduce the risk of flooding, the county, along with neighboring municipalities and multiple levels of government, is participating in a large-scale flood mitigation project spearheaded by the US Army Corps of Engineers. This project is expected to protect against flooding equivalent to 100-year flood levels for the entire Fargo-Moorhead region.

### Social

The district's overall S issuer profile score is neutral to low (S-2), reflecting relatively low exposure to social risks across most categories, including access to basic services, housing, health and safety, education, and demographics.) The district also has a young population, which provides additional evidence signaling continued enrollment growth. The median age in the district is 33 years old, below both the state (35 years) and national (38 years) medians.

### Governance

The district's overall G issuer profile score is neutral to low (G-2). The district's transparency and disclosure is in line with peers, reflected in timely filing of audited financial statements and budgets and the district has good budget management, with reserves that are in line with peers. The district has good policy credibility and effectiveness with a formal fund balance policy.

The state controls the bulk of school district revenue through a weighted per-pupil funding formula with some adjustments for school district needs. The state provides for regular, predictable increases in state aid. Districts often can generate additional locally determined operating revenue through property taxes as most districts have headroom under the state-imposed property tax cap of 70 mills. The limit can also be overridden with voter approval.

## 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 3

### Fargo Public School District 1, ND

	Measure	Weight	Score
<b>Economy</b>			
Resident Income (MHI Adjusted for RPP / US MHI)	94.1%	10.0%	A
Full value per capita (full valuation of the tax base / population)	111,783	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	0.3%	10.0%	Aa
<b>Financial performance</b>			
Available fund balance ratio (available fund balance / operating revenue)	20.4%	20.0%	Aa
Net cash ratio (net cash / operating revenue)	18.7%	10.0%	Aa
<b>Institutional framework</b>			
Institutional Framework	Aa	10.0%	Aa
<b>Leverage</b>			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	289.7%	20.0%	A
Fixed-costs ratio (adjusted fixed costs / operating revenue)	8.2%	10.0%	Aaa
<b>Notching factors</b>			
No notchings applied			
Scorecard-Indicated Outcome			Aa3
<b>Assigned Rating</b>			<b>Aa2</b>

Sources: US Census Bureau, Fargo Public School District 1, ND's financial statements and Moody's Investors Service

## Appendix

Exhibit 4

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
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
<b>Financial performance</b>		
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
<b>Leverage</b>		
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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