

**Rating Action: Moody's assigns Aa3 UND and Aa2 ENH to Fargo PSD 1, ND's GOLT Bonds**

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New York, May 17, 2022 -- Moody's Investors Service has assigned Aa3 underlying and Aa2 enhanced ratings to Fargo Public School District 1, ND's \$7.5 million Limited Tax Building Fund Bonds, Series 2022A. Moody's maintains the district's Aa2 issuer rating and its Aa3 rating on the district's outstanding general obligation limited tax (GOLT) debt. Following the sale, the district will have \$87.7 million of outstanding GOLT debt. The issuer rating reflects the district's ability to repay debt and debt-like obligations without consideration of any pledge, security, or structural features.

**RATINGS RATIONALE**

The Aa2 issuer rating reflects the district's growing enrollment trend even in light of the pandemic, institutional presence, solid resident incomes and full value per capita, stable financial operations supported by solid reserves, and moderate long-term liabilities inclusive of a low debt burden and a high pension burden.

The distinction between the Aa2 on the issuer rating and the Aa3 rating on the GOLT debt is based on insufficient taxing headroom under a dedicated 26.35 mill Building Fund Levy; headroom is less than 35% on maximum annual debt service (MADS).

The Aa2 enhanced rating is based on the security provided by the State of North Dakota Department of Public Instruction's (NDDPI) school district credit enhancement program, as established by state statute. The program rating incorporates adequate program mechanics and the credit quality of the State of North Dakota, which has an issuer rating of Aa1 with a stable outlook. For more information on the state's rating and outlook, please see our rating report for the State of North Dakota dated December 9, 2021.

Under the program, established and designed by the State of North Dakota, the bonds are backed by the state's pledge to accelerate state aid that has been appropriated to the district during the current fiscal year should the district be unable to meet debt service requirements. Pursuant to North Dakota code 6-09.4-23, the superintendent of the state Department of Public Instruction (DPI) will intercept aid due to a school district if notified of a potential debt service deficiency. To participate in the program, school districts must adopt a bond resolution and agree to provide a bond counsel opinion as well as file the debt service schedule with the DPI. School districts must also certify to an additional bonds test of two times maximum annual debt service based on school aid available to the district. The district has completed all of the pre-sale requirements for participating in the program. Based on fiscal 2021-2022 state aid revenues of \$100.3 million, the projected available state aid on an August 1 principal payment date for all outstanding issues in the program is approximately 10.6x maximum annual debt service (MADS) of \$9.5 million. In addition, participation in the intercept program is irrevocable as long as indebtedness enhanced by the program remains outstanding.

**RATING OUTLOOK**

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

**FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS**

- Material and sustained increases in operating reserves (issuer)
- Significant moderation of long-term liabilities (issuer)
- Upgrade of issuer rating (GOLT)
- Sustained increased taxing headroom above key threshold (GOLT)
- Upgrade of the North Dakota Department of Public Instruction program (enhanced)

**FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS**

- Sustained decline in enrollment (issuer)
- Narrowing of financial reserves (issuer)
- Increase in long-term liabilities (issuer)
- Downgrade of issuer rating (GOLT)
- Downgrade of the North Dakota Department of Public Instruction program (enhanced)

#### LEGAL SECURITY

The Series 2022A 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 2022A bonds are additionally supported by the Aa2 rated State of North Dakota Department of Public Instruction's (NDDPI) school district credit enhancement program.

#### USE OF PROCEEDS

The proceeds of the bonds will be used to construct and improve outdoor athletic facilities at North High School.

#### 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 11,419 in fiscal 2022.

#### METHODOLOGY

The principal methodology used in the underlying rating was US K-12 Public School Districts Methodology published in January 2021 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM\\_1202421](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1202421). The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings Methodology published in March 2022 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM\\_1309599](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1309599). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

#### 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 at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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