

CREDIT OPINION

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Fargo Public School District 1, ND

Update to credit analysis

Summary

[Fargo Public School District 1, ND's](#) (Aa2) credit profile benefits from a growing economic base and enrollment trend. Reserves are adequate, but will continue to decline in fiscal 2025 before stabilizing in fiscal 2026. Leverage is in line with peer medians.

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

Credit challenges

- » Recent and ongoing deficits, resulting in narrowing of financial position
- » Exposure to underfunded state cost-sharing pension plan
- » Exposure to state budgetary pressures due to reliance on state aid

Rating outlook

We do not assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Resident incomes and full value per capita closer to 120% and \$180,000, respectively
- » Maintenance of reserve ratios closer to 30%
- » Long-term liability ratio approaching 100%

Factors that could lead to a downgrade

- » Any negative variance from expectations in fiscal 2026 or further budgeted deficit in fiscal 2027
- » Available fund balance or cash ratio below 15%
- » Long-term liabilities ratio consistently above 250%

Key indicators

Exhibit 1

Fargo Public School District 1, ND

	2021	2022	2023	2024	Aa Medians
Economy					
Resident income	94.1%	96.4%	93.0%	N/A	118.5%
Full value (\$000)	\$9,670,835	\$10,516,120	\$11,667,710	\$12,274,645	\$4,184,901
Population	95,077	95,539	96,914	N/A	32,217
Full value per capita	\$101,716	\$110,071	\$120,392	N/A	\$123,578
Enrollment	11,169	11,476	11,657	11,449	4,143
Enrollment trend	-0.4%	0.3%	0.8%	0.8%	-1.0%
Financial performance					
Operating revenue (\$000)	\$203,516	\$211,698	\$222,168	\$234,183	\$76,434
Available fund balance (\$000)	\$40,584	\$43,126	\$46,958	\$44,464	\$21,177
Net cash (\$000)	\$35,088	\$39,673	\$40,033	\$40,514	\$26,035
Available fund balance ratio	19.9%	20.4%	21.1%	19.0%	29.2%
Net cash ratio	17.2%	18.7%	18.0%	17.3%	35.9%
Leverage					
Debt (\$000)	\$92,816	\$94,067	\$106,628	\$99,210	\$52,318
ANPL (\$000)	\$576,454	\$502,017	\$416,653	\$376,349	\$107,625
OPEB (\$000)	\$4,460	\$3,493	\$2,896	\$2,235	\$8,874
Long-term liabilities ratio	331.0%	283.2%	236.8%	204.0%	301.4%
Implied debt service (\$000)	\$6,237	\$6,510	\$6,570	\$7,407	\$3,696
Pension tread water (\$000)	\$18,128	\$10,588	\$17,726	\$15,479	\$1,705
OPEB contributions (\$000)	\$272	\$251	\$197	\$179	\$363
Fixed-costs ratio	12.1%	8.2%	11.0%	9.8%	9.8%

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

Profile

Fargo Public School District 1, ND covers 57 square miles, including much, but not all, of the City of Fargo. Facilities include three high schools, three middle schools, sixteen elementary schools, an alternative high school, a pre-kindergarten center for children with special needs, a K-8 special education day school, performing arts programs, a virtual academy, and adult education programs. The district currently serves about 11,500 students.

Detailed credit considerations

The district will continue to benefit from a growing enrollment trend, institutional presence, and solid full value per capita. The district's population has grown about 16% since 2000 and the median age of 33 is younger than the state (35) and the nation (39). Fargo serves as a regional economic center with significant health care, education, retail and information technology sectors. Top area employers are North Dakota State University, it's Research and Technical Park and Sanford Hospital Health. These economic factors have resulted in a growing enrollment trend at the district, with continued growth projected through at least 2030.

Reserves will remain adequate, but somewhat below peer medians for the next few years. Following a \$2.5 million decline attributable to negative variance in revenue, the district closed fiscal 2024 with available operating fund balance equivalent to about 19% of revenue. We expect an additional \$4.5 million deficit in fiscal 2025, but that fiscal 2026 results will be roughly balanced with available operating fund balance stabilizing at around 16% of revenue. Inability to regain structural balance and prevent further reserve declines could negatively pressure the rating. The bulk of operating revenue (47%) came from state aid in fiscal 2024.

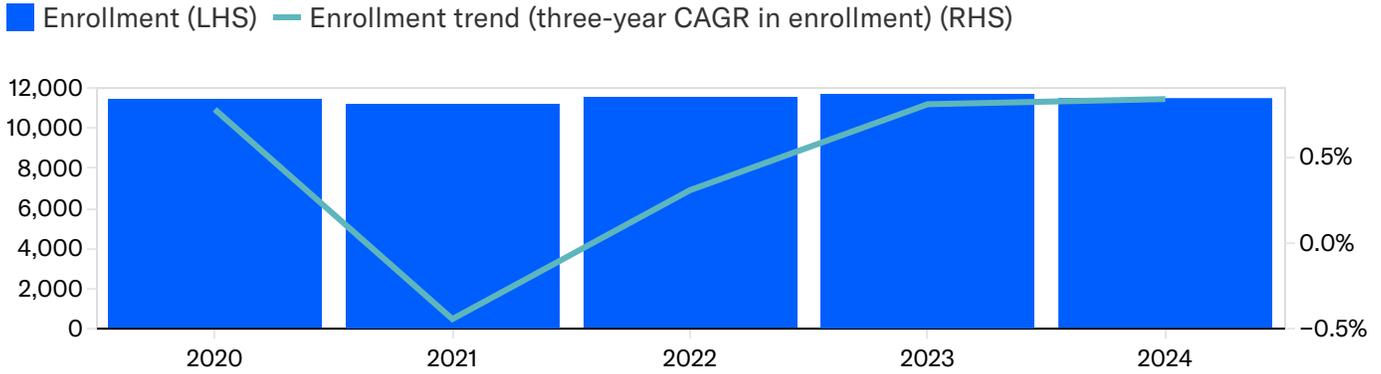
Long-term liabilities are slightly elevated, inclusive of a moderate debt burden and a high pension burden. While the district expects to issue about \$40 million in additional debt in fiscal 2026, the long-term liability ratio will remain under 250% and in line with peer

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medians. However, the district has significant capital needs in the medium-to-long term, which could drive the long-term liability and fixed costs ratios higher.

Economy

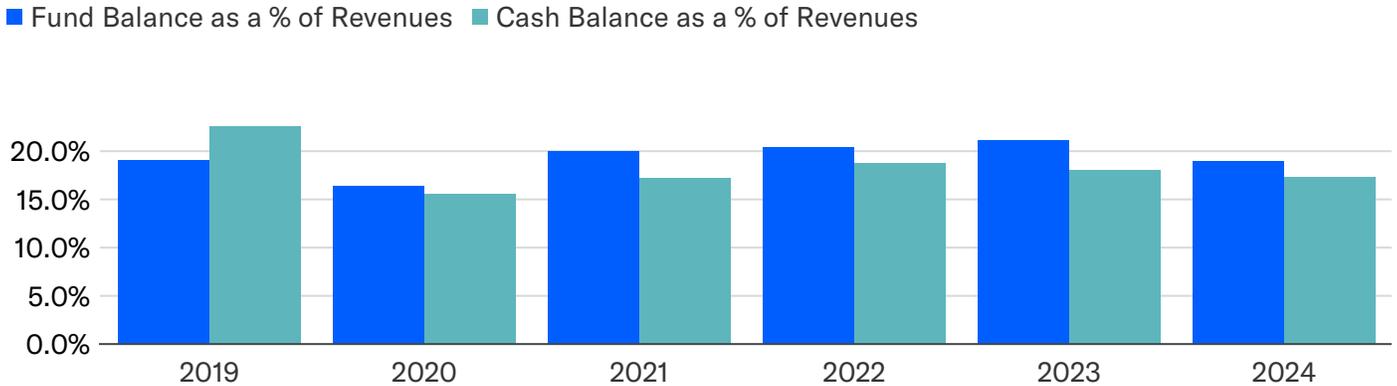
Exhibit 2
Enrollment



Source: Moody's Ratings

Financial operations

Exhibit 3
Financial Trends



Source: Moody's Ratings

Leverage

Pensions and OPEB

North Dakota school districts participate in the North Dakota Teachers Fund for Retirement (TFFR). While results will vary across US public pension systems, we generally expect local governments' fiscal year 2025 ANPLs to fall by about 20% based on our aggregate estimates. Near-term budgetary pressure related to pension costs is likely to remain minimal because state statute sets employer contributions at 12.75% of payroll. Pointing to the potential for eventual hikes in school districts' annual costs, however, aggregate contributions to the TFFR have regularly fallen short of our tread water indicator.

ESG considerations

Environmental

Environmental considerations are not a material driver of the district's credit profile at this time. The area has experienced notable flood events. To reduce the risk of flooding, the city, 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. The project is designed to protect against flooding equivalent to 100-year flood levels for the entire Fargo-Moorhead region.

Social

Social considerations are considered in the district's credit profile. The district's population has grown by about 16% since 2000, fueled by a tight and growing labor market. The population growth, paired with a relatively young median age, has resulted in a positive enrollment trend for the district.

Governance

The district's transparency and disclosure practices are in line with peers including timely filing of audited financial statements and budgets. The district has good policy credibility and effectiveness and its capture rate (the percentage of school-aged children within the district's boundaries who attend the district) is solid. 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.

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 4

Fargo Public School District 1, ND

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	93.0%	10.0%	A
Full value per capita (full valuation of the tax base / population)	126,655	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	0.8%	10.0%	Aa
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	19.0%	20.0%	Aa
Net cash ratio (net cash / operating revenue)	17.3%	10.0%	A
Institutional framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	204.0%	20.0%	Aa
Fixed-costs ratio (adjusted fixed costs / operating revenue)	9.8%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa3
Assigned Rating			Aa2

The complete list of outstanding ratings assigned to the Fargo Public School District 1, ND is available on their [issuer page](#). Details on the current ESG scores assigned to the Fargo Public School District 1, ND are available on their [ESGView page](#).

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

Appendix

Exhibit 5

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 Ratings
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 Ratings
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 Ratings
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Ratings
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 Ratings
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 Ratings
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 Ratings

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