

Research Update:

Hennepin County Independent School District No. 281, MN GO Debt Rating Lowered To 'BBB-' On Deficits, Reserves

January 16, 2026

Overview

- S&P Global Ratings lowered its underlying rating to 'BBB-' from 'BBB' on Hennepin County Independent School District No. 281 (Robbinsdale Area Schools), Minn.'s existing general obligation (GO) debt.
- The outlook on the underlying rating is stable.
- The rating downgrade reflects our view of another large general fund deficit the district projects for fiscal 2026, which will further weaken its already significantly negative reserve position.

Rationale

Security

The district's full-faith-and-credit unlimited ad valorem tax GO pledge secures the bonds.

Credit highlights

The underlying rating incorporates our forward-looking view of the district's materially negative reserve position, which is expected to weaken further in fiscal year 2026, driven by another large deficit anticipated by management. In our opinion, the district's budget planning and monitoring practices and its governance oversight have not been sufficient to support fiscal balance. We believe the district's healthy economic indicators and manageable debt burden support its general creditworthiness.

The district posted \$6.5 million general fund deficits (or -3% of revenues) in both fiscals 2024 and 2025, driven by significant compensation cost increases. It previously settled a new labor contract that involves significant salary increases over fiscals 2024 and 2025 (including salary increases of 8.25% for cabinet-level management, 12.8% for principals, 20.8% for teachers, and

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20.3% for assistants) without consideration for structural balance, in our view. The large deficits, along with some fund balance reclassification, significantly reduce available reserves to negative \$10.8 million (or -5.2% of revenues) in fiscal 2025 from \$7.4 million (or 3.8% of revenues) in fiscal 2023. We attribute the recent history of deteriorating operations to unrealistic budgeting assumptions and lack of structural adjustments in response to continuous enrollment declines. In fiscal 2026, a budget implementation error resulted in double-counting of \$20 million of compensatory funding. Even after significant workforce reductions, management projects a \$3.5 million to \$4 million deficit for the fiscal year, which is expected to reduce the available reserves to negative \$14 million. Despite the negative reserves, management does not project the need for cashflow borrowing in fiscal 2026.

As a result of the fund balance ratio falling below -2.5% in fiscal 2025, the district expects it will be approved by the state in early 2026 to enter statutory operating debt (SOD) to restore structural balance over time. The district is making great strides in trying to balance its budget, with significant workforce reduction in fiscal 2026 and another \$8 million in cost cuts planned for fiscal 2027 in order to balance the budget. The board approved the closure of four buildings in December 2025 under a five-year phased plan that the district proposed (as part of the SOD plan) to reduce physical footprint, plan for building configuration/improvements and related debt issuance, and implement programmatic and operational changes. We believe the creation of a sustainable plan to restore structural balance under state oversight supports the stable outlook, but we will monitor the budgeting process for fiscal 2027 and the outcome of the phased plan during the outlook period. We will also monitor whether the increased state aid in fiscals 2026 and 2027 is sufficient to offset the district's ongoing enrollment declines (13% since fiscal 2021 and 8% projected through fiscal 2031).

In our view, the district's historical budgeting, financial planning practices and policies, and board oversight were insufficiently robust to ensure expenditure control and support long-term fiscal balance. In fiscal 2023, the district's auditor issued material weakness and significant deficiency findings on internal controls, as reflected in the district's failure to comply with state and federal deadlines for the submission of audited financial data and annual financial statements. The district was late again in filing its audit in fiscal 2024 but complied with the deadline in fiscal 2025. An external investigation of the district board in 2024 found that six of the seven members were responsible for violating its values and norms agreement. Management reports that three new board members joined recently and that the board is now working closely with management on a long-term plan to restore structural balance. With the district entering SOD plan under state oversight and a phased plan due to be implemented, we will monitor the ongoing effectiveness of management and governance in transitioning the district's financial performance. As part of its phased plan, the district is contemplating issuing significant additional debt to reconfigure and improve its facilities, with the first tranche anticipated in November 2026. We will factor the debt plan into our analysis when the size and timeline are finalized. We believe significant debt issuance without commensurate improvements in its operations and reserves could pressure the rating.

The rating and outlook further reflect the following:

- Growing tax base benefitting from the district's favorable location in the broad and diverse Minneapolis-St. Paul (Twin Cities) metropolitan statistical area, resulting in robust county-level economic metrics, although local income levels are weaker than the county's.
- Consecutive large deficits that have led to rapid deterioration in available reserves to a significantly negative level in fiscal 2025, with the expectation of further weakening in fiscal 2026.

- Improving financial management policies and practices characterized by the creation of a long-term plan to restore structural balance under SOD, partially offset by the financial distress in recent years. Management uses at least three years of historical trends and a line-item approach when preparing the annual budget. The district does monthly budget-to-actual reporting to the school board and at least one annual revision to the budget. It has a 10-year long-term facilities maintenance plan that is updated annually and has created a long-term financial planning and formal debt policy. It maintains formal debt, investment, and fund balance policies but has not complied with the target of a minimum unassigned general fund balance of 6.5% of annual expenditures in recent years.
- Manageable debt burden, and we do not view pension benefits to be a credit pressure given the low contributions relative to budget.
- For more information on our institutional framework assessment for Minnesota school districts, see "[Institutional Framework Assessment: Minnesota Local Governments](#)," Sept. 10, 2024 on RatingsDirect.

Environmental, social, and governance

We view negatively the district's transparency and reporting and governance structure given its recent financial distress, the lack of a track record of sufficient management and board oversight for restoring structural balance, and the recent budget implementation error relating to double-counting of \$20 million of revenues. We note that the audit findings from fiscal 2023 on material weakness and significant deficiency in internal controls were not repeated in the 2024 and 2025 audits. However, there were new findings on material audit adjustment, student activity accounts with deficit balances, and a lack of student activity purpose summary, which is out of compliance with the state's Uniform Financial Accounting and Reporting Standards (UFARS) requirements. Management has put together a corrective action plan, and we will monitor the progress during the outlook period. We also view the district's social capital risk as moderately negative given that its declining enrollment has led to budgetary imbalance that has pressured general fund operations and available reserves. We view environmental factors as neutral in our credit rating analysis.

Outlook

The stable outlook on the underlying rating reflects our expectation that the district will likely restore a balanced budget starting in fiscal 2027 with continued cost-cutting measures and will improve its reserve position over time under the SOD plan, with state oversight.

Downside scenario

We could consider a further negative rating action if the district's fiscal 2026 actual results underperform current projections, if it fails to implement sufficient structural measures to balance the budget for fiscal 2027, leading to further available reserve declines, or if it issues a significant amount of debt without commensurate improvements in its operations and reserves.

Upside scenario

We could consider a positive rating action over time if the district sustains structural balance and significantly improves its available reserves to be in line with a higher rating.

Hennepin County Independent School District No. 281, Minnesota--Credit summary

| | |
|---------------------------------|------|
| Institutional framework (IF) | 2 |
| Individual credit profile (ICP) | 4.01 |
| Economy | 1.0 |
| Financial performance | 5 |
| Reserves and liquidity | 6 |
| Management | 5.30 |
| Debt and liabilities | 2.75 |

Hennepin County Independent School District No. 281, Minnesota--Key credit metrics

| | Most recent | 2025 | 2024 | 2023 |
|--|-------------|------------|------------|------------|
| Economy | | | | |
| Real GCP per capita % of U.S. | 181 | -- | -- | 181 |
| County PCPI % of U.S. | 136 | -- | -- | 136 |
| Market value (\$000s) | 15,184,180 | 15,184,180 | 15,095,185 | 14,642,906 |
| Market value per capita (\$) | 146,859 | 146,859 | 145,998 | 139,881 |
| Top 10 taxpayers % of taxable value | 3.9 | -- | 3.9 | 3.9 |
| County unemployment rate (%) | 3.1 | 3.1 | 2.8 | 2.5 |
| Local median household EBI % of U.S. | 103 | -- | 103 | 105 |
| Local per capita EBI % of U.S. | 105 | -- | 105 | 108 |
| Local population | 103,393 | -- | 103,393 | 104,681 |
| Financial performance | | | | |
| Operating fund revenues (\$000s) | -- | 208,815 | 202,409 | 192,162 |
| Operating fund expenditures (\$000s) | -- | 215,513 | 210,050 | 198,349 |
| Net transfers and other adjustments (\$000s) | -- | 250 | 1,105 | 3,941 |
| Operating result (\$000s) | -- | (6,448) | (6,536) | (2,246) |
| Operating result % of revenues | -- | (3.1) | (3.2) | (1.2) |
| Operating result three-year average % | -- | (2.5) | (1.2) | 1.8 |
| Enrollment | -- | 10,367 | 10,353 | 10,946 |
| Reserves and liquidity | | | | |
| Available reserves % of operating revenues | -- | (5.2) | 0.3 | 3.8 |
| Available reserves (\$000s) | -- | (10,768) | 688 | 7,380 |
| Debt and liabilities | | | | |
| Debt service cost % of revenues | -- | 10.1 | 10.1 | 10.0 |
| Net direct debt per capita (\$) | 2,011 | 2,011 | 2,011 | 1,960 |
| Net direct debt (\$000s) | 207,886 | 207,887 | 207,881 | 205,188 |
| Direct debt 10-year amortization (%) | 69 | 49 | 76 | 81 |
| Pension and OPEB cost % of revenues | -- | 5.0 | 5.0 | 5.0 |
| NPLs per capita (\$) | -- | 898 | 996 | 1,281 |
| Combined NPLs (\$000s) | -- | 92,832 | 103,019 | 134,141 |

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