

Rating Action: Moody's upgrades Shakopee ISD 720, MN's GOs to A3 and COPs to Baa1; outlook stable

19 Jan 2021

New York, January 19, 2021 -- Moody's Investors Service has upgraded Shakopee Independent School District 720, MN's general obligation unlimited tax (GOULT) rating to A3 from Baa1 as well as the district's certificates of participation (COPs) to Baa1 from Baa2. Moody's has also assigned A3 underlying rating and Aa2 enhanced ratings to the district's \$77 million Taxable General Obligation Refunding Bonds, Series 2021A. This rating action affects \$184 million of rated GOULT debt and \$10 million rated COPs. The outlook remains stable.

RATINGS RATIONALE

The upgrade to A3 for the GOULT rating reflects the district's improved liquidity and fund balance as well as upcoming structural adjustments expected to balance financial operations and stabilize reserves. We expect reserves will fall in fiscal 2021 and stabilize in fiscal 2022 based on planned budget cuts the district is taking in response to its recent, unsuccessful operating levy referendum. While general fund balance will remain narrow for at least the next two years, total liquidity is adequate. The district benefits from a large tax base in the Twin Cities metropolitan area, strong resident incomes, and stable to slightly growing enrollment. Debt and pension burdens are above average.

The Aa2 enhanced rating on the Series 2021A bonds reflects the additional security provided by the State of Minnesota's School District Credit Enhancement Program (MSDCE). The programmatic rating is one rating lower than the State of Minnesota's Aa1 stable GO rating reflecting the distinction between this pledge and the state GO offset by sound program mechanics and the State of Minnesota's pledge of an unlimited appropriation from its General Fund should the district be unable to meet debt service requirements. The program's mechanics include a provision for third party notification of pending deficiency. If the school district does not transfer funds necessary to pay debt to the paying agent at least three days prior to the payment due date, the state will appropriate the payment to the paying agent directly. Moody's has received a copy of the signed program applications.

The Baa1 COP rating is one rating lower than the A3 GOULT rating based on the risk of annual non-appropriation offset by the essentiality of the projects, which include elementary school additions.

RATING OUTLOOK

The stable outlook reflects our expectation that reserves and liquidity will remain adequate and general fund balance will not fall below our fiscal 2022 expectations.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Material growth in operating reserves and liquidity
- Moderation of the debt and pension burdens

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Further declines in operating reserves beyond current expectations
- Material increases in debt or pension burdens

LEGAL SECURITY

The Series 2021A bonds, as well as the district's outstanding GOULT debt, are secured by the district's full faith and credit pledge backed by its authority to levy ad valorem property taxes unlimited as to rate and amount. The bonds are secured by state statute and also benefit from the security provided by the State of Minnesota's School District Credit Enhancement Program (MSCDE). Under the program, the bonds are secured by the state's pledge of an unlimited appropriation from its General Fund should the district be unable

to meet debt service requirements.

The district's COPs are secured by lease rental payments made by the district which are subject to annual appropriation.

USE OF PROCEEDS

The Series 2021A bonds will refund portions of the Series 2013A, 2015A and 2015B bonds, which originally financed additions to the high school, security improvements, and other various school building renovations.

PROFILE

Shakopee ISD 720 is located 25 miles southwest of Minneapolis (Aa1 stable), in Scott County (Aa1) and serves a population of approximately 46,239. The district includes the City of Shakopee (Aa1) and portions of the cities of Prior Lake (Aa2) and Savage. The district offers comprehensive educational programs for students in kindergarten through the twelfth grade. Enrollment for the 2020-2021 school year is roughly 8,075 students.

METHODOLOGY

The principal methodology used in the general obligation ratings was US Local Government General Obligation Debt published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1230443. The principal methodology used in the enhanced ratings was State Aid Intercept Programs and Financings published in December 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1067422. The principal methodology used in the lease rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1102364. Alternatively, please see the Rating Methodologies page on 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.

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