

**Rating Action: Moody's assigns Aa3 UND and Aa2 ENH to West Fargo PSD 6, ND's GO Bonds**

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New York, May 07, 2020 -- Moody's Investors Service, has assigned Aa3 underlying and Aa2 enhanced ratings to West Fargo Public School District 6, ND's \$60.4 million General Obligation School Building Bonds, Series 2020B and \$10.4 million General Obligation Special Assessment Prepayment Bonds, Series 2020C. Concurrently, Moody's maintains the Aa3 underlying rating on the district's outstanding long-term general obligation unlimited tax (GOULT) debt. Following the sale, the district will have \$262.3 million of outstanding GOULT debt, of which \$200 million is rated. Of the outstanding GOULT debt \$146.4 million carries the enhanced rating.

**RATINGS RATIONALE**

The Aa3 GOULT rating reflects the district's recently stabilized financial position with adequate reserve levels following expenditure adjustments. The rating also incorporates rapid growth in the Fargo (Aa2 stable) metropolitan area that has sparked substantial growth in the district's tax base, enrollment and revenues while also necessitating capital investments that has led to a high and growing debt burden. The rating also reflects the district's elevated pension liability.

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. The enhancement program carries the state's outlook. For more information on the state's rating and outlook, please see our most recent Rating Action report for the State of North Dakota dated December 20, 2018.

Under the program, established and designed by the State of North Dakota, the bonds are secured 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 2019- 2020 state aid revenues of \$89 million (net of \$9.5 million of state aid paid out on August 1), the projected available state aid on an August 1 principal payment date for all outstanding issues in the program is approximately 7.49x maximum annual debt service (MADS) of which \$11.9 million occurs in 2023. In addition, participation in the intercept program is irrevocable as long as the 2020B and 2020C bonds are outstanding.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for West Fargo PSD 6. However, the situation surrounding coronavirus is rapidly evolving and the longer-term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of West Fargo PSD 6 changes, we will update the rating and/or outlook at that time.

**RATING OUTLOOK**

Outlooks are not typically assigned to local government credits with this amount of debt.

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

- Material and sustained increases in operating reserves and liquidity (underlying)
- Significant moderation of debt and unfunded pension liabilities (underlying)

- An upgrade in the state's issuer rating (enhanced)

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

- Further declines in operating reserves and/or liquidity (underlying)
- Growth in leverage related to long-term debt or pension liabilities (underlying)
- Weakening of the district's tax base and/or resident income levels (underlying)
- A downgrade in the state's issuer rating (enhanced)
- Weakening of program mechanics, intercept timing or documentation (enhanced)
- Significant decline in debt service coverage by pledged state aid (enhanced)

#### LEGAL SECURITY

The district's Series 2020B and Series 2020C, including the outstanding GOULT bonds, are secured by the district's general obligation unlimited tax pledge.

The Series 2020B and Series 2020C bonds are additionally secured by the State of North Dakota Department of Public Instruction's (NDDPI) School District Credit Enhancement Program, which is rated Aa2 and carries a stable outlook.

#### USE OF PROCEEDS

The 2020B bonds will finance the renovation, remodeling, and improvements of various school facilities. Proceeds of the Series 2020C bonds will be used to prepay outstanding special assessments levied by surrounding cities, for the district's share of the benefit derived from city funded improvements.

#### PROFILE

The district is located in eastern North Dakota in Cass County and includes the cities of West Fargo, Harwood, Horace, and portions of Fargo. The district covers an area of around 80,000 acres and serves a population of over 67,000. The district currently has 19 schools plus 6 other facilities. Enrollment for the 2019/2020 school year is 11,443.

#### METHODOLOGY

The principal methodology used in the underlying ratings was US Local Government General Obligation Debt published in September 2019 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM\\_1191097](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1191097). 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](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1067422). 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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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1133569](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569).

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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