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Ratings

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Summary:

Sheldon, Iowa; General Obligation

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Summary:

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Credit Profile		
US$3.7 mil GO cap loan notes ser 2024 due 06/01/2039		
Long Term Rating	A+/Stable	New
Sheldon GO taxable cap ln nts		
Long Term Rating	A+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'A+' long-term rating to Sheldon, Iowa's anticipated $3.7 million series 2024 general obligation (GO) capital loan notes.
- At the same time, S&P Global Ratings affirmed its 'A+' long-term and underlying rating on the city's GO debt outstanding.
- The outlook is stable.

Security

The city plans to use tax increment financing (TIF) revenue to repay the capital loan note debt service. However, the city's full-faith-credit-and-resources and unlimited ad valorem property tax pledges secure its GO debt, and we base our rating on this GO pledge. The city will apply note proceeds to fund a street reconstruction project as part of its urban renewal plan.

Credit overview

Population and property value growth have been positive during the past 5-10 years, and management reports some ongoing development, including a new hotel and continued residential and commercial development.

Overall, we consider the city as structurally balanced and results have been positive, on average. The city reported a large general fund surplus for fiscal 2022 followed by a large deficit reported for fiscal 2023. The primary driver of this was $1 million in loan proceeds recorded in fiscal 2022 but expended in fiscal 2023 for the purchase of a ladder truck. For fiscal 2024, the city's estimates show a $621,000 surplus, or 15% of revenue, while higher capital spending will drive a budgeted 18% deficit for fiscal 2025. We consider the city's use of cash-basis accounting as a credit limitation, because cash-basis accounting presents a more opaque view of an entity's true financial condition than accrual-basis accounting.

Key credit factors include our view of the city's:

- Rural economy focused on agricultural activities with some taxpayer concentration, as the top 10 taxpayers account for 29% of total taxable valuation, with median household effective buying incomes in line with the county, and slightly below the U.S. level in 2024.
- Financial performance that we expect will remain positive, on average, though it is likely to continue showing some

volatility due to the city's use of cash-basis accounting and practice of cash-funding significant capital needs from its general fund.

- Available general fund reserves that are very strong relative to operating revenues, though somewhat low nominally at less than $2 million in most recent years and likely to fall back below $2 million based on the fiscal 2025 budgeted drawdown.
- Management practices that promote fiscal sustainability including monthly budgetary reports provided to city council, an informal reserve target of 17% of expenditures, an investment policy but no debt policy or multi-year operating forecast.
- Debt service costs that will decline after being elevated in fiscal years 2022 and 2023, likely falling to around 14% of total governmental fund revenue, with a debt burden that should remain stable given no additional borrowing plans at this time.
- Limited pressure from pensions and other post-employment benefits (OPEBs) as the Iowa Public Employees' Retirement System (IPERS) is well funded and the city's liability is small on a per capita basis, while OPEB costs are low relative to the budget, with OPEBs funded on a pay-as-you-go basis.
- For more information on our institutional framework assessment for Iowa municipalities, see "Institutional Framework Assessment: Iowa Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

Sheldon, like several communities in the region, faced significant flooding in June 2024. We understand many properties experienced damage, and management reports damages of around $300,000 to city assets and infrastructure, which it expects to be reimbursed by the Federal Emergency Management Agency (FEMA). In 2023, the city an emergency management plan focused on continuation of government services and support to residents in the event of an emergency, such as a weather event. The city remains somewhat exposed to elevated flood risk, as highlighted by the recent flood.

We consider the city's social and governance factors neutral.

Outlook

The stable outlook reflects our expectation that Sheldon's general fund reserves will remain comfortably above the 17% of expenditures minimum targeted by the city, and that general fund results will remain positive, on average, despite some periodic volatility induced by cash-basis accounting and sometimes significant capital outlays from the general fund.

Downside scenario

We could lower the rating if the city unexpectedly draws down reserves to levels that are materially weaker both nominally as well as relative to operating revenue or if the city issues a substantial amount of additional debt.

Upside scenario

We could raise the rating if the city's reserves grow to materially stronger levels we expect to be sustained, and if economic metrics or management policies and practices materially strengthen.

Table 1

Sheldon, Iowa--credit summary	
Institutional framework (IF)	3
Individual credit profile (ICP)	2.53
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Debt and liabilities	4.00
Management	2.65

Table 2

Sheldon, Iowa--key credit metrics				
	Most recent	**2023**	**2022**	**2021**
Economy				
GCP per capita % of U.S.	97	--	97	95
County PCPI % of U.S.	99	--	99	94
Market value ($000s)	502,740	396,701	349,006	336,584
Market value per capita ($)	87,175	68,788	65,776	63,494
Top 10 taxpayers % of taxable value	29	24	--	--
County unemployment rate (%)	2.2	2.4	2.2	2.8
Local median household EBI % of U.S.	95	82	81	92
Local per capita EBI % of U.S.	85	78	83	102
Local population	5,767	5,767	5,306	5,301
Financial performance				
Operating fund revenues ($000s)	--	3,108	3,203	3,417
Operating fund expenditures ($000s)	--	4,885	3,410	3,194
Net transfers and other adjustments ($000s)	--	601	1,536	309
Operating result ($000s)	--	(1,176)	1,329	532
Operating result % of revenues	--	(37.8)	41.5	15.6
Operating result three-year average %	--	6.4	21.7	9.2
Reserves and liquidity				
Available reserves % of operating revenues	--	48.5	83.1	39.1
Available reserves ($000s)	--	1,508	2,662	1,335
Debt and liabilities				
Debt service cost % of revenues	26.9	26.9	44.2	41.4
Net direct debt per capita ($)	2,209	1,763	1,704	1,623
Net direct debt ($000s)	12,740	10,167	9,042	8,604
Direct debt 10-year amortization (%)	77.0	--	--	--
Pension and OPEB cost % of revenues	6	6	6	6
Net pension liabilities per capita ($)	101	101	92	--
Combined net pension liabilities ($000s)	582	582	487	--

GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of October 23, 2024)		
Sheldon GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Sheldon GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Sheldon GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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