

Moody's

INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS MIG 1 RATING TO WAUNAKEE COMMUNITY SCHOOL DISTRICT'S (WI) \$8.45 MILLION BOND ANTICIPATION NOTES

Global Credit Research - 04 Jun 2010

AFFIRMS Aa2 RATING ON \$52.9 MILLION OF POST-SALE GOULT DEBT

Primary & Secondary Education
WI

Moody's Rating

ISSUE	RATING
Bond Anticipation Notes, Series 2010	MIG 1
Sale Amount \$8,450,000	
Expected Sale Date 06/07/10	
Rating Description Bond Anticipation Notes	

Opinion

NEW YORK, Jun 4, 2010 – Moody's Investors Service has assigned a MIG 1 rating to Waunakee School District (WI's) \$8.45 million Bond Anticipation Notes. The BAN's do not constitute a general obligation of the district, though it has covenanted to issue general obligation debt prior to the April 1, 2011 maturity. Concurrently, we have affirmed the Aa2 rating on the district's outstanding general obligation debt, affecting \$52.9 million. Proceeds from the BAN's will finance the cost of a school building program consisting of various capital improvement projects at Waunakee High School. Assignment of the MIG 1 rating is based on expected market access for the take out refinancing, a history of successful marketing of notes and bonds, and the credit quality reflected in the Aa2 rating assigned to the District's long term general obligation debt outstanding. Affirmation of the Aa2 long term rating reflects the District's moderate but growing tax base, solid reserve levels, above average wealth levels, and an above average debt burden.

EXPECTED MARKET ACCESS FOR REFINANCING OF BANs

The District's demonstrated ability to access the market includes three bond sales and five note sales in the past five years. Due to the district's history of frequent debt issuance in recent years, we believe the district will continue to have market access. The current issue matures on April 1, 2011, and the district plans to redeem the notes in the fall of 2010 with Qualified School Construction Bonds, Build America Bonds or Tax-exempt General Obligation Debt. Moody's notes that this is well in advance of the current issue's maturity date and we believe that this timeframe should provide sufficient time to implement alternative plans should market access issues occur.

As the result of a referendum election on April 6, 2010, the District has been authorized to issue general obligation bonds in an amount not to exceed \$8,450,000. The Bond Anticipation Notes constitutes the referendum-approved amount and provides interim financing for the Waunakee High School project.

MODERATELY SIZED AFFLUENT TAX BASE BENEFITS FROM PROXIMITY TO MADISON

Located just north of Madison (Tax-backed rated Aaa/ Stable outlook) in north central Dane County (Tax-backed rated Aa1/ stable outlook), Waunakee School District encompasses an area of approximately 56 square miles, serving the entire Village of Waunakee (Tax-backed rated Aa2), a portion of Madison, and several surrounding towns. It's sizeable \$2.1 billion tax base has grown at a strong 8.1% average annual rate for the last five years but did decline 1.3% from 2008 to 2009 due to a downturn in housing values. The district will continue to experience limited growth over the near term as residential development is expected to offset any recent moderate declines in housing values. Given its proximity, many residents commute to Madison area employment centers. District wealth levels notably exceed state indices (Per Capita Income as a % of State was 136.5%, Median Family Income as a % of State was 131.7%), while Dane County's November unemployment rate of 5.2% compared favorably to both state and national averages during the same time period.

SOUND FINANCIAL OPERATIONS EXPECTED TO CONTINUE

We believe the district's financial operations will remain sound given historically strong management, conservative budgeting, stable reserve levels, and steadily increasing enrollment. Over the last several years, the district has posted General Fund surpluses with the exception of fiscal 2007, in which the district spent down \$663,000 of General Fund reserves to purchase and remodel a new facility. The district closed fiscals 2008 and 2009 with General Fund surpluses in excess of \$300,000 each year, primarily driven by savings related to instruction expenditures, which brought the General Fund balance to \$5.0 million, or a satisfactory 14.3% of revenues (slightly below its formal policy of 15%), at the close of fiscal 2009. Management is expecting an operating surplus in fiscal 2010 of approximately \$200,000. Like many district's though out the State, Waunakee issues cash flow notes during the year to cover traditional low points in its revenue cycle, but favorably does not roll them. However, the General Fund's liquidity continues to trend narrower, net cash as a percentage of revenue stood at -1.2% in 2009, down from -0.4% in 2008.

Given the development patterns which have emerged throughout the district, enrollment has steadily increased (up 3.2% since 2005), and is projected to continue to do so. Enrollment increases benefit the district under the current state aid funding formula. The rate of growth of their revenue limit has allowed the district to maintain current staff levels and programs despite increasing expenditures. The growth rates have also driven the need for new, remodeled, and enlarged facilities. To accommodate the increased operating costs associated with new facilities, the district sought approval for two \$375,000 excess levy requests, both failed to pass (52% no votes for 2010-2011 school year, 53% no votes for 2011-2012 school year). The district also asked voters to approve \$25 million in capital borrowing to address capacity needs at the elementary school, the measure failed with 52% no votes. The School Board will consider plans to readdress voters in November 2010 for approval on the aforementioned capital borrowing and excess levy requests. Despite the potential challenges excessive growth can present to a district's

budget, we believe Waunakee is well positioned to meet future demand given management's demonstrated record of forward looking planning, commitment to protect reserves in keeping with its fund balance policy, and tight budget oversight.

ABOVE AVERAGE DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

With the district's steady and sustained growth driving the need for new and updated facilities, its direct debt burden has grown considerably over time from 1.3% in 2001 to its current level of 2.8% (5.1% overall debt burden), yielding a similarly high \$3,790 direct debt per capita. The district, in the near term, will seek voter approval for capital borrowing due to projected enrollment growth (projecting a 1,000 students over the next ten years). Moody's notes the increased debt levels with the district has incurred over the past several years, but believe that favorable demographic trends (high wealth levels, steadily increasing population) will help to keep it manageable, and debt levels will moderate over time.

KEY STATISTICS

2009 Population (Estimate): 21,082

2009 Full Valuation: \$2.2 billion

Estimated Full Value Per Capita: \$136,677

Direct Debt: 2.8%

Overall Debt: 5.1%

Payout (10 Years): 59.6%

Fiscal 2009 General Fund Balance: \$5.0 million (14.3% of General Fund revenues)

Dane County Unemployment Rate (11/2009): 5.2%

1999 Per Capita Income as a % of State: 136.5% (134.5% of US)

1999 Median Family Income as a % of State: 131.7% (139.2% of US)

Post-sale GOULT debt outstanding: \$52.9 million

PRINCIPAL METHODOLOGY AND LAST RATING ACTION

The principal methodology used in assigning the rating was General Obligation and Bond Anticipation Notes, published on October 2009 and April 2009 respectively, and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action with respect to the Waunakee Community School District was on March 10, 2010, when a rating of A1 was assigned to the District's General Obligation Unlimited Tax School Bonds. That rating was subsequently recalibrated to Aa2 on April 16, 2010.

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