

## CREDIT OPINION

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 Rate this Research

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# Waunakee Community School District, WI

## Update to credit analysis

### Summary

[Waunakee Community School District](#) (Aa2) benefits from its moderate tax base size that is favorably located near Madison and strong wealth and income indicators. The district's credit profile will be challenged by its weak liquidity levels and below median reserves. While the debt burden is expected to remain above average, overall fixed costs of the district are moderate.

On May 26, 2020 a negative outlook was assigned to Waunakee Community School District.

### Credit strengths

- » Moderately sized tax base near Madison
- » Stable enrollment
- » Above average resident income levels

### Credit challenges

- » Narrow liquidity and dependence on cash flow borrowing
- » Above average debt burden with plans for additional debt

### Rating outlook

The negative outlook reflects the district's trend of declining general fund reserves and very weak liquidity position, which we expect to remain narrow over the next two years.

### Factors that could lead to an upgrade

- » Trend of surplus operations bolstering reserves and liquidity
- » Moderation of the district's debt burden

### Factors that could lead to a downgrade

- » Continued trend of declining reserves and liquidity
- » Material increase of the debt burden
- » Significant tax base deterioration

### Key indicators

Exhibit 1

Source: Audited financial statements; US Census Bureau; Moody's Investors Service

## Profile

The Waunakee Community School District encompasses 56 square miles in [Dane County](#) (Aa1 stable). The district provides prekindergarten through 12th grade education, serving approximately 13,500 residents of the Village of Waunakee, a portion of Madison, and several surrounding towns. The district's fiscal 2019 enrollment was approximately 4,100.

## Detailed credit considerations

### Economy and tax base: moderately sized base that benefits from proximity to Madison

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, health care, retail, and oil and gas could suffer particularly severe impacts.

While tax base growth may slow, given the COVID-19 pandemic, we expect the tax base will remain mostly stable. Located just north of Madison in Dane County, Waunakee Community School District encompasses an area of approximately 56 square miles, serving the entire Village of Waunakee, a portion of Madison, and several surrounding towns. Given its proximity to the state capital, many residents commute to Madison, which has a diverse employment base that includes state government and the University of Wisconsin at Madison. Assessed values of the district increased a significant 10.8% in fiscal 2020 due to reassessments of the Village of Waunakee and the Town of Westport.

The district's population has continued to increase, totaling 20,100 in 2018, up from 18,600 in 2013. Additionally, student enrollment has grown incrementally over the past four years totaling 4,100 in 2019.

### Financial operations: adequate reserves; reliance on cash flow borrowing for operations

The district's operations are expected to remain stable, but reserve levels will remain below that of similarly rated peers given the district's three year plan to set aside capital project funds for future facilities projects. Available general fund balance has declined each year since 2016, from \$9.2 million in fiscal 2016 to \$6.8 million, a below median 13.2% of general fund revenues. General fund balance is expected to decline an additional \$433,00 in fiscal 2020 as the district completes its three year plan of building up its capital projects fund. Inclusive of debt service funds, the available operating fund balance totaled \$8.7 million, or a satisfactory 14.7% in fiscal 2019.

## LIQUIDITY

While the district's general fund total balance is satisfactory, its net cash balance is very weak due to necessary cash flow borrowing. At year-end fiscal 2019 the district's general fund cash position, net of \$5.4 million of outstanding revenue anticipation notes, was negative \$270,000, -0.5% of general fund revenues. The district receives its property taxes twice a year, resulting in very uneven cash flows that require the support of external borrowing. The district's cash flow borrowing spiked in fiscal 2019, increasing approximately \$2.5 million in fiscal 2019 to total \$5.5 million. Officials indicate that net cash at the end of fiscal 2020 will increase to approximately \$1 million. Additionally, the district has \$1.3 million in its fund 41 capital projects fund. The fund 41 balance is projected to increase to \$1.8 million in fiscal 2020.

### Debt and pensions: elevated debt burden with plans for additional debt

We expect the district's debt burden to remain elevated, despite continued tax base growth. The district's direct debt burden is above average at 2.5% of full value and 1.9 times operating expenditures. The relatively heavy amount of borrowing was used for capital projects to accommodate the district's steady enrollment growth. While the district does not anticipate additional borrowing over the next twelve months, additional borrowing beyond that time frame is highly likely

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**DEBT STRUCTURE**

All of the district's debt is fixed rate and primarily long-term. Principal amortization is rapid with 79% scheduled for repayment within 10 years. The district's GOULT bonds are secured by its full faith and credit and pledge to levy unlimited ad valorem property taxes.

**DEBT-RELATED DERIVATIVES**

The district is not party to any derivative agreements.

**PENSIONS AND OPEB**

The district participates in the Wisconsin Retirement System (WRS), a statewide cost-sharing plan. Contributions are determined using a level contribution actuarial method in an effort to keep employer and employee contribution rates at a level percentage of payroll over time, and are set at 100% of the plan's funding requirement. As a result, WRS remains one of the best-funded public employee retirement systems in the country, with statewide employer contributions to WRS in 2017 totaling 107.7% of the amount needed to tread water.

The district's adjusted net pension liability (ANPL) was \$63.7 million in 2019, down from \$71.5 million in 2019, bringing the three-year average to \$64.9 million, or 1.1x operating revenue and 2.2% of full value. Moody's ANPL reflects the use of a market-based discount rate to value pension liabilities rather than the assumed rate of investment return on plan assets. In comparison, the reported net pension liability (NPL), based on the plan's 7% discount rate, was \$6.4 million in fiscal 2019.

**ESG considerations****Environmental**

Environmental considerations are a modest factor in the district's credit profile at this time. According to data of Moody's affiliate, Four Twenty Seven Waunakee Community School District, is located in an area at medium risk for heat stress. The firm measures heat stress as the relative change in both the frequency and severity of hot days, as well as average temperature. The biggest impact of heat exposure for most Midwest issuers will be to agriculture based economies.

**Social**

Social considerations impact the district's credit profile. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Waukanee Community SD's favorable location in the Madison metropolitan area bolster its economic profile as detailed in the Economy and Tax Base section. Overall district demographics are above average, and unemployment rates are below both the state and median averages.

**Governance**

Wisconsin school districts have an Institutional Framework score of "Aa", which is strong. The sector's main revenue sources are property taxes and state aid. Districts operate under revenue limits but have the ability to request voter authorization for levy overrides. Revenues and expenditures tend to be predictable. Expenditures are somewhat flexible, as collective bargaining is curbed for non-public safety government employees. Across the sector, fixed and mandated costs are generally modest.

The district has an informal general fund balance policy of 15% of expenditures. Officials expect to fall below the policy in fiscal 2020.

## Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

### Waunakee Community School District, WI

Rating Factors	Measure	Score
<b>Economy/Tax Base (30%)<sup>[1]</sup></b>		
Tax Base Size: Full Value (in 000s)	\$3,233,888	Aa
Full Value Per Capita	\$160,714	Aaa
Median Family Income (% of US Median)	173.2%	Aaa
<b>Finances (30%)</b>		
Fund Balance as a % of Revenues	14.7%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	0.4%	A
Cash Balance as a % of Revenues	2.8%	A
5-Year Dollar Change in Cash Balance as % of Revenues	-1.7%	Baa
<b>Notching Factors:<sup>[2]</sup></b>		
Other Analyst Adjustment to Finances Factor: additional liquidity in the capital projects fund		Up
<b>Management (20%)</b>		
<b>Institutional Framework</b>		
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
<b>Debt and Pensions (20%)</b>		
Net Direct Debt / Full Value (%)	2.3%	A
Net Direct Debt / Operating Revenues (x)	1.2x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.0%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.1x	A
	Scorecard-Indicated Outcome	Aa3
	Assigned Rating	Aa2

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: Audited financial statements, US Census Bureau, Moody's Investors Service

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