New Issue: Moody's assigns Aa2 to Waunakee Comm. School District, WI's $10M GO Refunding Bonds, Ser. 2015

Global Credit Research - 08 Apr 2015

Aa2 rating maintained on outstanding rated GO debt

WAUNAKEE COMMUNITY SCHOOL DISTRICT, WI
Public K-12 School Districts
WI

Moody's Rating

ISSUE		RATING
General Obligation Refunding Bonds, Series 2015		Aa2
Sale Amount	$10,000,000	
Expected Sale Date	04/13/15	
Rating Description	General Obligation	

Moody's Outlook NOO

NEW YORK, April 08, 2015 --Moody's Investors Service has assigned a Aa2 rating to Waunakee Community School District, WI's $10 million General Obligation Refunding Bonds, Series 2015. Concurrently, Moody's maintains a Aa2 rating on the district's outstanding rated general obligation unlimited tax (GOULT) debt. Post-sale, the district will have $55.7 million of outstanding GOULT debt, $45.8 million of which is Moody's rated.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the district's moderately-sized tax base within the Madison (Aaa stable) metropolitan area, characterized by above average resident wealth indices and increasing student enrollment. Also incorporated in the rating are the district's satisfactory General Fund reserves; reliance on annual cash flow borrowing due to timing of receipts; as well as its above average debt burden and manageable exposure to post-retirement liabilities.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

- Material tax base growth

- Sustained increases to operating reserves and liquidity

- Moderation of the district's debt burden

WHAT COULD MAKE THE RATING GO DOWN

- Erosion of the district's tax base and/or demographic profile

- Sustained declines to operating reserves and liquidity

- Significant further leveraging of the district's debt burden

STRENGTHS

- Moderately-sized tax base with above average socioeconomic characteristics and proximity to strong Madison economy

- Strengthening operating reserves supported by voter approved supplemental levies

- Growing enrollment

CHALLENGES

- Continued reliance on cash flow borrowing to provide liquidity for operations

- Above average debt burden with future borrowing expected

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

TAX BASE AND ECONOMY: MODERATELY-SIZED AFFLUENT TAX BASE BENEFITS FROM PROXIMITY TO MADISON

We expect the district's tax base will demonstrate long-term growth due to ongoing residential development and the strength of the regional economy. Located just north of Madison in Dane County (Aa1 stable), Waunakee Community School District encompasses an area of approximately 56 square miles, serving the entire Village of Waunakee (Aa2), a portion of Madison, and several surrounding towns. Since 2009, the moderately-sized $2.2 billion tax base has grown at an average annual rate of 0.6%. This rate includes modest declines in 2010 and 2012, but also a 3.7% increase in 2014. Taxpayer concentration is modest with the top ten district tax payers comprising 4.0% of 2014 full value.

Given its proximity to the state capital, many residents commute to Madison for employment with an employment base that includes state government and the University of Wisconsin at Madison. Residential developments within the district continue, including the Community at Bishops Bay. The development, which covers 750 acres and is currently one of the largest in Wisconsin, is expected to add a large number of homes to the district's tax base over the next few decades. In addition, two other housing developments are underway and expected to add a total of 750 homes over the next decade. The district's demographic profile is affluent with median family income at 161.3% of the nation, according to the American Community Survey's 2008-2012 survey. At 3.6% in January of 2015, the unemployment rate for the county was well below the state's rate of 5.4% and nation's rate of 6.1% during the same time period.

FINANCIAL OPERATIONS AND POSITION: STRENGTHENING FINANCIAL RESERVES AS A RESULT OF ANNUAL SURPLUSES

The district's financial operations are expected to remain sound given historically strong management, conservative budgeting, and steadily increasing enrollment. Beginning with fiscal 2008 the district has recorded seven consecutive operating surpluses, including a modest surplus of $78,000 in fiscal 2014. The surplus resulted in a year-end General Fund balance of $7.4 million, or a satisfactory 17.6% of annual revenues. Management has a demonstrated history of achieving positive budget-to-actual results, including a $443,000 positive variance in fiscal 2014. While a modest $12,000 operating surplus has been budgeted for fiscal 2015, management anticipates ending the year with a stronger surplus, primarily due to additional operating revenues generated by supplemental levies approved by voters in November 2014. In addition to the General Fund, the district ended fiscal 2014 with $1.1 million in restricted Debt Service Fund reserves.

The district's operational revenues are nearly evenly split between state aid (49% of fiscal 2014 revenues) and local property taxes (46%). Enrollment is a key component of operating revenues for Wisconsin (Aa2 positive) school districts and Waunakee's enrollment has grown significantly over the last decade. Current year enrollment stands at 4,039, representing 2.0% average annual growth since fiscal 2010. Management's projections for enrollment growth, based on new housing starts underway and planned, indicate an additional 300 students by fiscal 2020. While enrollment growth has driven revenue growth, it has also required the district to issue debt to address capacity issues and may continue to drive operational costs higher going forward. Favorably, in November of 2014, district voters approved additional levies for operating costs associated with new facilities and technology initiatives. Beginning in the current fiscal year, the district has begun phasing in $540,000 annually for the next four years for the operational referendum funds which pay for the increased operational expenses of the new construction, and increased funding for maintenance and technology.

Liquidity

While the district's General Fund total balance is satisfactory, its General Fund net cash balance is more limited and reflective of cash flow borrowing due to the timing of operating receipts. At year-end fiscal 2014 the district's General Fund cash position, net of $3 million of outstanding revenue anticipation notes, was $1.6 million, or a narrow 3.7% of General Fund revenues. Favorably, as the district's total General Fund balance has improved, its annual cash flow borrowing has reduced. The district short-term borrowed $5.5 million as recently as fiscal 2013. For fiscal 2015 the district has $3 million in short-term borrowing currently outstanding, which matures on September 25, 2015.

DEBT AND OTHER LIABILITIES: ABOVE AVERAGE DEBT BURDEN WITH ADDITIONAL BORROWING AUTHORIZED AND PLANNED

We expect the district's debt burden to remain elevated, despite expected tax base growth, due to additional authorized yet unissued borrowing. The district's current direct debt burden is above average at 2.5% of full value and 1.2 times operating expenditures and is expected to increase within three months when an additional $35 million of GO debt is issued. In November, voters approved $45 million in GO debt to support the construction of one additional school and renovations and expansion of two additional schools. Additionally, management anticipates more borrowing in the next several years due to significant residential development leading to growing enrollment.

Debt Structure

Currently, principal amortization is average with 71.4% of outstanding GO debt retired within 10 years. The pace of repayment is expected to slow when all referendum debt has been issued; though all GO debt is expected to be retired within 20 years.

Debt-Related Derivatives

All of the district's debt is fixed rate and the district is not a party to any interest rate swap agreements.

Pensions and OPEB

The district's exposure to unfunded liabilities from its share of the state multi-employer pension plan, the Wisconsin Retirement System (WRS), is expected to remain manageable. The district's contribution to WRS in calendar year 2013 was $1.3 million, equal to the required contribution, or a modest 2.9% of fiscal 2014 revenues. Moody's adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, was $10.6 million for fiscal 2013. In the three years through fiscal 2013 the district's ANPL averaged a low 0.4 times operating revenues, inclusive of the General Fund and Debt Service Funds, and a modest 0.9% of full value. Moody's ANPL reflects certain adjustments we make to improve the comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported contribution information, but to improve comparability with other rated entities. We determined the district's share of liability for WRS in proportion to its share of covered payroll.

The district also provides other post employment benefits (OPEB) to eligible retirees and dependents through a single- employer defined benefit plan. Teachers hired after April 1, 2008 receive a credit of $1,000 per year of service to the district to be used to fund a post-employment health retirement account (HRA). Teachers hired prior to that date receive a $1,200 credit per year of service to fund a post-employment HRA. A similar plan is in place for administrators. The district has been making annual contributions since 2009 into an OPEB trust and contributed $592,000 in fiscal 2014. As of July 1, 2012, the most recent actuarial valuation date, the OPEB plan's unfunded actuarial accrued liability (UAAL) was $3.7 million, down from $6.9 million in 2008.

MANAGEMENT AND GOVERNANCE: STRONG INSTITUTIONAL FRAMEWORK; CAPABLE MANAGEMENT

Wisconsin school districts have an institutional framework score of "Aa", or strong. School districts benefit from predictable and timely disbursements of state aid and property tax revenue, the latter of which is made whole by overlapping governments. Districts operate under revenue limits but have the ability to request voter authorization for levy overrides. Although state aid has been reduced in recent years, Wisconsin's Act 10 legislation provides school districts with considerable expenditure flexibility as it curbs the bargaining power of non-public safety government employees. Pensions are well-funded.

We consider the district's management to be strong. Management has demonstrated recent history of achieving positive financial operations through conservative budget practices while also taking advantage of enrollment based revenue growth. While increasing student enrollment may challenge the district in the areas of facility needs and direct debt burden, we expect management to adequately address any reasonable concerns which may arise.

KEY STATISTICS

2014 Full value: $2.2 billion

2014 Full value per capita: $122,000

Median family income as % of the US: 161.3%

Fiscal 2014 available combined operating fund balance / revenue: 17.9%

5-year change in available combined operating fund balance / revenue: 4.9%

Fiscal 2014 combined operating fund net cash / revenue: 5.6%

5-year change in combined operating fund net cash / revenue: 3.9%

Institutional framework score: Aa

5-year average combined operating revenue / combined operating expenditures: 1.01

Net direct debt burden: 2.5% of full valuation; 1.2 times combined operating revenue

3-year average Moody's adjusted net pension liability: 0.9% of full valuation; 0.4 times combined operating revenue

OBLIGOR PROFILE

The Waunakee Community School District encompasses 56 square miles in Dane County. The district provides pre-kindergarten through twelfth grade education, serving residents of the Village of Waunakee, a portion of Madison, and several surrounding towns. The district's fiscal 2015 enrollment stands at 4,039.

LEGAL SECURITY

The Series 2015 bonds are secured by the district's general obligation unlimited tax (GOULT) pledge, which benefits from a dedicated levy unlimited as to rate or amount.

USE OF PROCEEDS

Proceeds from the bonds will be used to currently refund the district's outstanding Bond Anticipation Notes, Series 2014 which were issued to begin the first phase of a district capital expansion plan. Authority to issue the bonds was approved by voters in a November 2014 referendum.

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Andrew T. Van Dyck Dobos
Lead Analyst
Public Finance Group
Moody's Investors Service

Hetty Chang
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

MOODY'S
INVESTORS SERVICE