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Ratings

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Summary:

Waunakee Community School District, Wisconsin; General Obligation

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Table Of Contents

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Credit Profile		
US$9.99 mil GO bnds ser 2022 due 04/01/2042		
Long Term Rating	AA-/Stable	New
Waunakee Comnty Sch Dist taxable GO rfdg qual sch const & Build America bnds dtd 10/04/2010 due 04/01/2030		
Long Term Rating	AA-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to Waunakee Community School District, Wis.' approximately $10 million series 2022 general obligation (GO) bonds
- At the same time, we affirmed our 'AA-' long-term rating on the district's GO bonds outstanding.
- The outlook is stable.

Security

The district's full faith, credit, and unlimited ad valorem tax secure the GO debt. Voters authorized $175 million in GO bonds during the Nov. 8, 2022, election. This issuance represents the first installment of that amount. Officials plan to issue $120 million in additional GO debt in 2023 and the remaining $45 million by 2026. Bond proceeds will be used to finance the construction of an elementary school and middle school, the removal of an elementary school, and other districtwide renovations and improvements.

Credit overview

The district is a residential suburb of Madison, which has experienced robust tax base growth in recent years with more projected. As a result of ongoing residential construction and demographic studies, officials expect as many as 1,000 new students over the next 10 years, or about a 23% increase, which directly affects state aid revenue and capital needs.

After several years of deficit spending spurred by pay-as-you-go capital projects, the district posted an operating surplus in fiscal 2021 and estimates a $1.2 million (or 2% of estimated operating expenditures) surplus in fiscal 2022. Officials project similar surpluses in fiscal 2023 and beyond, given recent cost-cutting measures and voter-approved levy increases. In the course of two elections, voters authorized $2.1 million in additional revenue in fiscal years 2021 to 2025, $1.0 million in fiscal 2023, $3.0 million in 2024, and $6.0 million in 2025. Both levies will expire in 2025, which officials report is intentional, as the district will reassess needs before requesting additional authorization. Furthermore, the district plans to receive $3.7 million in American Rescue Plan Act funds in fiscal years 2023 and 2024 to be spent primarily on recurring expenditures that operating referendum dollars will cover in future years. The board's formal reserve policy is to maintain a minimum of 15% of the following year's budgeted operating expenditures in reserve, which officials aim to meet by fiscal year-end 2022.

The district's large overall net debt burden will likely double with the upcoming issuances. We anticipate that overall net debt might increase to around $12,112 per capita and 6.4% of market value in 2023. However, its broad and diverse economy with extremely strong wealth metrics is an offsetting credit factor. Thus, we anticipate rating stability over the outlook horizon.

The 'AA-' long-term rating further reflects our opinion of the district's:

- Location 10 miles northeast of Madison within a rapidly growing regional economy, supporting very strong median household effective buying income and extremely strong per capita market value;
- Stable operating profile with surplus budget results projected in the coming years, supported by recent operating levy increases and pauses in capital spending,
- Standard management practices and policies, a change from good, with robust long-term financial projections, high-level capital planning lacking finer details, and reserves not quite in line with the board's formal policy minimum of 15% of operating expenditures;
- High overall net debt per capita, albeit moderate debt as a share of market value with significant medium-term debt plans that we anticipate will remain manageable; and
- Favorable pension position as a result of participation in the fully funded Wisconsin Retirement System though with poorly funded other postemployment benefits (48.9% funded in fiscal 2021) that we do not view as a medium-term credit pressure given that annual contributions make up a small percentage of budget, the funded ratio has greatly improved over the past five years, and only modest increases in contributions are projected in the coming years based on a recent actuarial study.

Environmental, social, and governance

We view the district's trend of growing enrollment as a social capital opportunity, as enrollment growth brings more state aid revenue and population growth provides underlying economic strength to drive residential and commercial development. However, enrollment growth can pose a challenge with managing additional capital needs, as is evident in the district's history of deficit spending for capital-related costs and plans to issue significant debt to address capacity concerns. We view the district's environmental and governance risks as neutral in our credit rating analysis.

Outlook

The stable outlook reflects S&P Global Ratings' expectation of credit stability, despite significant plans to issue additional debt, given the district's robust and growing economy and history of relatively stable reserves.

Downside scenario

We could take negative rating action if budgetary imbalance caused a material decline in reserves without a plan for timely replenishment.

Upside scenario

Although we view such a scenario as unlikely over the outlook horizon, we could take positive rating action with moderation in the district's overall net debt burden and more formalized financial policies and practices, particularly with capital planning and meeting the board's fund balance policy on a sustained basis.

Waunakee Community School District Key Credit Metrics

	Characterization	Most recent	Historical information		
			2021	2020	2019
Economic indicators					
Population			22,123	21,870	21,538
Median household EBI as % of U.S.	Very strong		152	154	156
Per capita EBI as % of U.S.	Very strong		137	140	149
Market value ($000s)		4,195,442	3,383,828	3,233,888	2,918,023
Market value per capita ($)	Extremely strong	189,642	152,955	147,869	135,483
Top 10 taxpayers as % of taxable value	Very diverse	2.8	3.3	2.4	2.7
Financial indicators					
Total available reserves ($000s)			6,861	6,221	6,669
Available reserves as % of operating expenditures	Strong		12.3	11.6	12.8
Total government cash as % of governmental fund expenditures			18.6	13.0	15.2
Operating fund result as % of expenditures			1.9	(0.7)	(1.3)
Financial management assessment	Standard				
Enrollment			4,306	4,376	4,340
Debt and long-term liabilities					
Overall net debt as % of market value	Moderate	3.5	4.4	4.7	5.5
Overall net debt per capita ($)	High	6,692	6,688	6,994	7,414
Debt service as % of governmental funds noncapital expenditures	Moderate		11.6	15.3	15.3
Direct debt 10-year amortization (%)	Rapid	78	88	85	78
Required pension contribution as % of governmental funds expenditures			3.1	2.9	3.1
OPEB actual contribution as % of governmental funds expenditures			0.7	0.9	1.0
Minimum funding progress, largest pension plan (%)			110.7	100.7	94.7

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022