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New Issue: MOODY'S ASSIGNS Aa2 RATING TO WAUNAKEE COMMUNITY SCHOOL DISTRICT'S (WI) $4.65 MILLION GENERAL OBLIGATION REFUNDING BONDS

Global Credit Research - 07 Oct 2011

Aa2 RATING APPLIES TO $59.2 MILLION OF POST-SALE GO DEBT

Primary & Secondary Education
WI

Moody's Rating

ISSUE	RATING
General Obligation Refunding Bonds	Aa2

Sale Amount	$4,650,000
Expected Sale Date	10/17/11
Rating Description	General Obligation

Opinion

NEW YORK, Oct 7, 2011 -- Moody's Investors Service has assigned a Aa2 rating to Waunakee School District (WI's) $4.65 million General Obligation Refunding Bonds. Concurrently, Moody's has affirmed the Aa2 rating on the district's outstanding general obligation debt. Post-sale, the district will have $59.2 million of outstanding general obligation debt.

SUMMARY RATINGS RATIONALE

The refunding bonds are secured by the district's general obligation unlimited tax pledge and proceeds will advance refund a portion of the district's outstanding Series 2004 and 2006 General Obligation Refunding Bonds for an estimated net present value savings of 9.8%. Assignment and affirmation of the Aa2 rating reflects the District's moderately-sized tax base that has experienced recent modest declines in valuation and above average wealth levels; solid reserve levels; and an elevated debt burden with slow principal amortization.

STRENGTHS

-Multi-year trend o f operating surpluses leading to steady increases in General Fund reserves

-Above-average socioeconomic profile

CHALLENGES

-Recent declines in assessed valuation

- Elevated debt burden

DETAILED CREDIT DISCUSSION

MODERATELY SIZED AFFLUENT TAX BASE BENEFITS FROM PROXIMITY TO MADISON

Located just north of Madison (General Obligation-GO rated Aaa/ stable outlook) in north central Dane County (GO rated Aa1/ stable outlook), Waunakee School District encompasses an area of approximately 56 square miles, serving the entire Village of Waunakee (GO rated Aa2), a portion of Madison, and several surrounding towns. While the sizeable $2.1 billion tax base has grown at a solid 4.5% average annual rate over the last five years, it has experienced modest declines in 2009 (1.3%) and 2010 (2.2%) due to depreciation in the district's residential sector. The district does not expect additional declines in valuation going forward and anticipates flat to modest growth over the near term as residential developments are expected to offset any additional declines in housing values. Given its proximity to the state capital, many residents commute to Madison area employment centers. District wealth levels notably exceed state indices with per capita and median family income at 136.5% and 131.7%, respectively. Favorably, Dane County's August 2011 unemployment rate of 5.1% was below both the state (7.3%) and national (9.1%) rates for the same time period.

SOUND FINANCIAL OPERATIONS EXPECTED TO CONTINUE

The district's financial operations are expected to remain sound given historically strong management, conservative budgeting, stable reserve levels, and steadily increasing enrollment. With the exception of fiscal 2007, the district has closed the last several years with General Fund surpluses. In fiscal 2007, 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 increased the General Fund balance to $5.0 million, or a satisfactory 14.3% of General Fund revenues at the close of fiscal 2009. The district continued to improve reserve levels with an operating surplus of approximately $568,000 in fiscal 2010 increasing the General Fund balance to $5.6 million, or a solid 15.2% of General Fund revenues. Officials attribute the positive operations primarily to savings in instruction expenditures. The district's formal General Fund policy is to maintain 15% of budgeted operating expenditures.

While audited results are not yet available, preliminary results indicate an additional operating surplus of $703,047 in fiscal 2011. The operating surplus increased reserves to $6.3 million, or a strong 16.6% of budgeted General Fund expenditures. Management notes the operating surplus was the result of higher than budgeted revenues from one time Medicaid reimbursements and federal grants. While the district's preliminary budget forecasted a balanced budget for fiscal 2012, management now anticipates a modest surplus despite a decline of approximately 10%, or roughly $1.9 million, in state aid revenues. The district was able to offset much of this reduction with pension and health care cost savings in accordance with the provisions of the state budget repair bill. Like many districts throughout the State, Waunakee issues cash flow notes during the year to cover traditional low points in its revenue cycle. The district plans to issue $5 million in notes in October 2011, the same amount borrowed during each of the last four fiscal years.

Given the development patterns which have emerged throughout the district, enrollment has steadily increased (up 3.1% since 2006), and is projected to continue in the medium term as new housing developments are expected to come online. Management anticipates an additional 1,000 students enrolling in the district over the next decade. Enrollment increases benefit the district as enrollment is a key determinant in state imposed revenue limits. 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 in April of last year for two $375,000 excess levy requests, both of which were narrowly defeated (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. However, the district did receive approval for a measure related to improvements and additions to the Waunakee High School. Management reports good progress on the project with an anticipated completion in August 2012. The School Board will continue to consider plans to return to voters in the future for approval on capacity related capital borrowing projects. 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 conservative budgeting.

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 from 1.3% of full valuation in 2001 to 3.0% of full valuation (5.5% overall debt burden) in 2010. The district plans to continue to review facilities and address any capacity issues. Notably, officials do not expect to seek voter approval for capital borrowing despite projected enrollment growth Moody's notes the increased debt burden the district has incurred over the past several years, but believes that favorable demographic trends (high wealth levels, steadily increasing population) and expected tax base growth will help to keep it manageable and debt levels will moderate over time. Principal amortization is relatively slow with 60.5% of debt retired in 10 years, though the amortization schedule matches the useful life of the assets financed. All of the district's debt is fixed rate and the district is not a party to any interest rate swap agreements.

WHAT COULD CHANGE THE RATING - UP

-Substantial growth and expansion in the district's taxbase

-Continued trend of positive operations

WHAT COULD CHANGE THE RATING - DOWN

-Sustained operating deficits leading to deterioration of General Fund reserve levels

-Erosion of the district's tax base and/or significant enrollment declines

KEY STATISTICS

2010 Population (Estimate): 17,224

2010 Full Valuation: $2.1 billion

Full Value Per Capita: $ 116,137

Direct Debt: 3.0%

Overall Debt: 5.5%

Payout (10 Years): 60.5%

Fiscal 2010 General Fund Balance: $5.56 million (15.2% of General Fund revenues)

Dane County Unemployment Rate (08/2011): 5.1%

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: $59.2 million

PRINCIPAL METHODOLOGY USED

The methodologies used in this rating were General Obligation Bonds Issued by U.S. Local Governments published in October 2009, and Short-Term Cash Flow Notes published in May 2007. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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