S&P Global Ratings

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Summary:

DeForest Area School District, Wisconsin; General Obligation

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Summary:

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Credit Profile		
US$84.5 mil GO rfdg bnds dtd 07/31/2019 due 04/01/2039		
Long Term Rating	AA+/Stable	New
Deforest Area Sch Dist GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to DeForest Area School District, Wis.' general obligation (GO) refunding bonds, with an estimated dated date of July 31, 2019, and affirmed its 'AA+' rating, with a stable outlook, on the district's existing GO debt.

The district's unlimited-tax-GO pledge secures the bonds, which the electorate authorized at referendum.

Management plans to use new bond proceeds to refund bond anticipation notes issued earlier in 2019. Voters approved up to $125 million of additional GO debt in April 2019 to construct a new intermediate school, expand the high school, and fund various improvements. Management plans to pay $7 million of the total $129 million project cost with equity contributions.

Credit summary

The district's access to Madison's broad and diverse economy supports a growing property tax base and enrollment. Positive enrollment will help management maintain balanced operations under the state's per-pupil revenue limit. Despite the lack of revenue flexibility associated with Wisconsin school districts, the district has built, what we consider, very strong operating reserves that allow it to set aside large capital reserves. We consider moderately high-to-high debt its greatest credit weakness.

The rating reflects our opinion of the district's:

- Participation in Madison's and Dane County's deep, diverse economies;
- Strong income, measured by median household effective buying income;
- Growing enrollment, directly tied to district revenue; and
- Very strong financial reserves, paired with good financial management practices under our Financial Management Assessment (FMA) methodology.

We believe what we consider moderately high-to-high debt somewhat offsets these strengths.

Economy

The district is in south-central Wisconsin in Dane and Columbia counties, 10 miles north of downtown Madison, which is the state capital and home to University of Wisconsin's flagship campus. The district serves a population estimate of 23,000 in portions of Madison and Sun Prairie; all of DeForest Village; and portions of the towns of Hampden, Leeds, Bristol, Burke, Vienna, and Windsor.

The district's location north of Madison, along U.S. Highway 51, provides residents with a broad, ever-increasing jobs base. County unemployment was 2.2% in 2018, below state and national levels. We consider median household and per capita effective buying incomes strong at 127% and 112%, respectively, of national averages. Estimated market value, in terms of equalized value (EV), including tax-increment districts, increased by 38% since 2014 to $2.8 billion in 2018, or, in our opinion, an extremely strong $122,360 per capita. The tax base is very diverse with the 10 leading taxpayers amounting to only 5.4% of EV, including tax-increment districts.

Finances

Wisconsin school districts operate under a per-pupil revenue cap with the pupil count calculated as a three-year moving average; the state determines annual cap increases. For the 2018-2019 school year, the district has reported total student enrollment of 3,829, a 5.6% increase over school year 2014-2015. Management is projecting enrollment will increase by another 8.6% by school year 2023-2024 as the population grows.

The district reported general fund surpluses after transfers of $97,000 at fiscal year-end June 30, 2017, and $115,000 in fiscal 2018. Therefore, assigned, unassigned general fund balances increased to $19 million at fiscal year-end 2018, which we consider very strong at 46% of expenditures. For fiscal 2019, management is projecting a $100,000 general fund surplus after transfers for capital projects. Although the preliminary fiscal 2020 budget is still in progress, officials expect to structure it with, at least, breakeven general fund results after capital-project transfers.

Voters in 2019 approved a supplemental operating levy management projects will generate an additional $2.5 million annually, starting with fiscal 2020. Management plans to use $1.5 million of the new revenue for capital projects in fiscal years 2020 and 2021, and it intends to use the remainder to enhance operations. Management will complete its $7 million equity contribution to bond-financed projects with reserves held in capital-projects funds.

Management

We consider the district's financial management practices good under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Highlights include management's:

- Use of demographers to provide enrollment projections;
- Use of historical trends, state per-pupil funding limit updates, and input from the teachers' contract to set each new budget's revenue and expenditures;
- Providing of three budget reports to the school board annually, along with voucher reports for each semimonthly board meeting;
- Long-term financial projections covering the budget year and five forward years, which it annually updates and presents to the board;

- Multiyear capital-maintenance plan it updates annually, organized by building, with project costs and payment sources;
- Board-approved debt-management policy that refers to state limitations; and
- Board-approved fund-balance policy it updates in June 2019 to maintain unassigned general fund balance at 30%-35% of expenditures to cover cash-flow needs and contingencies.

Debt and pension liabilities

We view overall net debt, including debt from overlapping entities, as moderately high at 7.9% of market value and high at $9,650 per capita. We consider direct principal debt amortization slower than average with officials planning to retire 37% within 10 years. In fiscal 2018, debt service carrying charges, after adjusting for refunding costs, were a low 7.9% of total governmental expenditures. Management currently expects to issue the remaining $32 million of voter-approved GO bonds in 2021.

The district issued GO promissory notes in 2017 to a single buyer, $1.9 million of which is outstanding. The notes, maturing in April 2021, are not subject to acceleration. Therefore, we do not think the notes will pressure liquidity.

Eligible district employees participate in Wisconsin Retirement System, a cost-sharing, multiemployer, defined-benefit system. The district has historically made 100% of required annual pension contributions, which totaled $1.9 million, or 3.6% of total governmental expenditures, in fiscal 2018. WRS was 103% funded statewide at Dec. 31, 2017.

The district also offers life insurance and a defined-benefit health-insurance plan to retirees. The district set up a trust for its retiree health-insurance plan, which was 110% funded at June 30, 2017. Pension and other-postemployment-benefit costs totaled $3.1 million in fiscal 2018, or 6% of total governmental expenditures.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that with the help of growing enrollment, the district will likely maintain positive operations and very strong reserves while generating surpluses for capital projects within the two-year outlook period. We believe the district's participation in the Madison metropolitan statistical area's broad and diverse economy provides additional rating stability.

Upside scenario

We could raise the rating if key economic indicators were to increase to levels we consider commensurate with 'AAA' rated credits and if debt burden were to lower to a moderate level, while management maintains, at least, balanced operations and very strong reserves.

Downside scenario

We could lower the rating if management cannot maintain balanced operations, resulting in substantially decreased operating reserves.

Related Research

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014