MOODY'S INVESTORS SERVICE

Rating Update: Moody's affirms Wilmot Union High School District, WI's GO at Aa2

Global Credit Research - 11 Aug 2014

Aa2 applies to $33.6 million of rated GO debt outstanding

WILMOT UNION HIGH SCHOOL DISTRICT, WI
Public K-12 School Districts
WI

Opinion

NEW YORK, August 11, 2014 --Moody's Investors Service has affirmed the Aa2 rating on Wilmot Union High School District, WI's general obligation debt. The bonds are secured by the district's general obligation unlimited tax pledge. The district has a total of $35.3 million of general obligation debt outstanding, of which $33.6 million is rated by Moody's.

SUMMARY RATING RATIONALE

The Aa2 rating incorporates the district's moderately-sized, though declining, tax base, above average resident wealth levels, declining enrollment trend that is expected to stabilize, strong fiscal management demonstrated by healthy reserves, average debt, and low pension burden.

STRENGTHS

- Strong fiscal management practices

- Healthy financial position

- Low pension burden

CHALLENGES

- Declining property valuations

- Trend of decreasing enrollment resulting in declining revenues

- District borrows for cash flow purposes

DETAILED CREDIT DISCUSSION

DECLINING TAX BASE AND ENROLLMENT TRENDS EXPECTED TO STABILIZE

The district is favorably located in southeastern Wisconsin (GO rated Aa2/stable) in Kenosha County (Aa2), approximately 53 miles southwest of Milwaukee (Aa3/stable) and 70 miles north of Chicago (Baa1/negative). The district operates one high school facility, which serves grades 9-12 in the Villages of Silver Lake and Twin Lake and the Townships of Salem, Randall, and Wheatland. The primarily residential tax base is moderately-sized at $1.9 billion, though it has declined by an average of 5.0% annually for the past five years. Management expects growth in the near-term given the district's location and availability of undeveloped land. Additionally, commercial growth is expected to continue in Kenosha County. Resident wealth levels are above average with the district's median family income at 117.9% of the US according to 2008-2012 American Community Survey estimates. The district's largest employers are reported to be stable and include Wilmot Union High School District, which employs approximately 140 employees. At 6.1%, Kenosha County's unemployment rate in May 2014 is higher than the state (5.5%) but equal to national (6.1%) rates for the same time period.

Enrollment currently stands at 1,084 students and has experienced a trend of decline, including a drop of 3.5% from fiscal 2013 to fiscal 2014. However, management expects increasing enrollment numbers going forward due to enrollment increases in the district's K-8 feeder schools. The district did not experience any net gain or loss in students through open enrollment in fiscal 2014. Management expects a net gain of 30 students through open enrollment in fiscal 2015, though this item is budgeted conservatively at no net gain in the fiscal 2015 budget.

STRONG FISCAL MANAGEMENT DEMONSTRATED BY HEALTHY RESERVES

We expect the district's strong financial performance to continue given a history of stable operations and a reduction in the need for cash flow borrowing. The district's strong fiscal management has resulted in the maintenance of healthy fund balances in the past ten years. Fiscal 2013 ended with a General Fund operating surplus of $483,000 due to expenditure reductions implemented to mitigate the decline in state aid due to decreasing enrollment. Expenditure controls include the elimination of health insurance at retirement, increased employee contributions to the district's pension account, and a reduction in staff. The operating surplus led to the increase of the available fund balance to $3.8 million, or a solid 21.2% of operating revenues, and within the district's policy to maintain 18% of revenues in reserve. General Fund net cash was much lower at $866,000, or a narrow 4.8% of revenues. The decline in cash was due to the establishment of a Capital Projects Fund to build reserves to finance a new artificial turf for the high school's football field.

While audited results are not yet available, management estimates the available fund balance and net cash balance at year-end fiscal 2014 to be similar to fiscal 2013. Although management does not expect the need to implement further expenditure controls, there is room for additional savings through increased employee contributions to health insurance premiums. The fiscal 2015 budget is balanced, and enrollment is budgeted to be flat, though an increase is expected.

Property taxes account for the majority of General Fund revenues at 57.6%, followed by state aid at 34.5%. The district annually cash-flow borrows through a line of credit due to the timing of property tax and state aid receipts. Favorably, the amount borrowed has decreased over the last several years. In fiscal 2008, the district borrowed $1.2 million, but reduced that amount to $800,000 by fiscal 2013. The district typically borrows for cash flow in December and repays the notes sometime in January when property tax receipts are received. During fiscal 2014, the district borrowed a lower $500,000 from the line of credit.

AVERAGE DEBT AND LOW PENSION BURDEN

We expect the district's debt burden will remain manageable given rapid principal amortization. The district's net direct debt is average at 1.9% of full value, and payout is rapid with all debt retired within ten years. The district has no plans to issue additional debt in the next three years. All of the district's debt is fixed rate, and it has no exposure to swaps.

The district's exposure to the state multi-employer pension plan, the Wisconsin Retirement System (WRS) is expected to remain manageable. The district has historically made its required contributions to WRS. For fiscal 2012, employer contributions totaled $432,000, or approximately a modest 2.3% of fiscal 2012 operating expenditures. The district's adjusted net pension liability (ANPL) in fiscal 2012, under Moody's methodology for adjusting reported pension data, was $8.8 million, or a low 0.47 times operating fund (inclusive of the General and Debt Service Funds) revenues. Moody's uses the ANPL to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities. We determined the district's share of liability for the state-run plan in proportion to its contributions to the plan and covered payroll.

WHAT COULD MAKE THE RATING GO UP

- Significant improvement in the district's socio-economic indicators and tax base

- Material increase in General Fund reserves and liquidity

WHAT COULD MAKE THE RATING GO DOWN

- Deterioration of General Fund reserves

- Marked decline in the district's tax base and enrollment

KEY STATISTICS

2013 Full Value: $1.9 billion

2013 Full Value Per Capita: $99,729

Median Family Income as % of U.S. (2012): 117.9%

FY 2013 Available Operating Fund Balance: $3.8 million (21.2% of Operating Fund Revenues)

5-Year Dollar Change in Available Operating Fund Balance as % of Revenues (2008-2013): 2.68%

FY 2013 Operating Fund Net Cash: $866,000 (4.8% of Operating Fund Revenues)

5-Year Dollar Change in Operating Fund Net Cash Balance as % of Revenues (2008-2013): 2.87%

Institutional Framework Score: A (Moderate)

5-Year Average of Operating Revenues / Operating Expenditures: 1.00 times

Net Direct Debt as % of Full Value: 1.89%

Net Direct Debt / Operating Revenues: 1.95 times

3-Year Average of Moody's Adjusted Net Pension Liability (actuarial) as % of Full Value (2010-2012): 0.28%

3-Year Average of Moody's Adjusted Net Pension Liability (actuarial) / Operating Revenues (2010-2012): 0.29 times

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.

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