Moody's Investors Service

New Issue: Moody's assigns Aa2 to Wilmot Union H.S.D., WI's $28.2M GO Ref. Bonds, Ser. 2015A

Global Credit Research - 18 Aug 2015

Aa2 rating applies to $33.2M of outstanding rated GO debt

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

Moody's Rating

ISSUE	RATING
Taxable General Obligation Refunding Bonds, Series 2015A	Aa2

Sale Amount	$28,190,000
Expected Sale Date	08/26/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, August 18, 2015 --Moody's Investors Service has assigned a Aa2 rating to Wilmot Union High School District, WI's $28.2 million Taxable General Obligation Refunding Bonds, Series 2015A. Concurrently, Moody's maintains the Aa2 rating on outstanding rated general obligation unlimited tax (GOULT) debt. Post-sale, the district will have $36.9 million of outstanding GOULT debt, $33.2 million of which is Moody's rated.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the district's moderately-sized, residential tax base in southeastern Wisconsin (Aa2 positive). The rating also incorporates the district's healthy financial operations; ample fund balance but relatively narrow cash; strong fiscal management; slightly above average debt profile; and modest pension burden.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

- Significant growth to the district's tax base and/or socioeconomic characteristics

- Material, sustained increases to General Fund reserves and liquidity

WHAT COULD MAKE THE RATING GO DOWN

- Significant deterioration to the district's tax base and/or socioeconomic characteristics

- Material, sustained decline to General Fund reserves and/or liquidity

STRENGTHS

- Somewhat above average resident wealth characteristics

- Healthy financial position supported by strong fiscal management

- Low pension burden

CHALLENGES

- Stagnant trend of property valuations

- Relatively narrow liquidity

- Slightly above average debt burden

RECENT DEVELOPMENTS

Recent developments are discussed in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

TAX BASE AND ECONOMY: MODERATELY-SIZED TAX BASE EXPERIENCING STAGNANT VALUATION TRENDS

The district's tax base is unlikely to demonstrate material near-term growth, although valuation has begun to stabilize following several years of significant declines. Located in southeastern Wisconsin in Kenosha County (Aa2), the district operates one high school facility, serving the Villages of Silver Lake and Twin Lake, as well as the Townships of Salem, Randall, and Wheatland. The base is highly residential, as residential real estate comprised 90% of 2014 equalized value. Valued in 2014 at a moderately-sized $1.9 billion, the tax base has declined by an average annual rate of 4.5% over the last five years. The declines were primarily a result of a softening of the residential real estate market. Favorably, the tax base did row by a modest 0.8% in 2014, perhaps signaling that a bottoming out of valuations occurred in 2013. While we do not expect material growth over the near-term, the district's long-term potential for tax base growth remains, given the district's location and availability of undeveloped land.

The district's socioeconomic profile is somewhat above average. According to data from the US Census Bureau's American Community Survey (2009-2013), the district's median family income stands at 116.4% of US levels. Based on its 2010 population of 18,722 the district's 2014 estimated full value per capita was a strong $101,000. While the district's total population grew 14.6% from 2000 to 2010, student enrollment has experienced recent declines. For fiscal 2015, enrollment stood at 1,109 which represented a decline of 100 students from fiscal 2010. District officials expect enrollment to remain fairly stable going forward given enrollment increases in the district's K-8 feeder schools, and enrollment did increase by 24 students in fiscal 2015 as compared to fiscal 2014.

FINANCIAL OPERATIONS AND RESERVES: HEALTHY RESERVE POSITION SUPPORTED BY STRONG FISCAL MANAGEMENT; RELATIVELY NARROW CASH POSITION

We anticipate the district's financial profile will remain steady given management's demonstrated history of maintaining satisfactory reserves. The district has recorded two consecutive audited operating surpluses since fiscal 2013, including a modest $82,000 surplus in fiscal 2014. The fiscal 2014 surplus increased the General Fund's balance to $3.9 million, or a healthy 25.7% of General Fund revenues. In addition to the General Fund, the district maintained $1.6 million in restricted debt service reserves. Combined operating funds stood at $5.5 million, or 29.2% of combined receipts. While audited financials for fiscal 2015 are not yet available, management estimates adding $222,000 to the General Fund's balance. A balanced budget has been approved for fiscal 2016. Reserve levels are expected to remain in excess of the district's stated policy to maintain 18% of revenues in reserve.

The district's main sources of operating revenues are local property taxes (53% of fiscal 2014 General Fund revenues) and state (39%). While most districts are generally restricted from raising revenues beyond state imposed revenue limits, absent voter override, the district does have more flexibility in adjusting expenditures. While management has in the past made expenditure reductions in the areas of health insurance and overall employee headcount, staffing levels are expected to remain consistent over the near-term.

Liquidity

The district's liquidity position is satisfactory but narrow relative to comparably rated credits. Historically, the district had needed to maintain a line of credit with a local bank, upon which it drew annually to ensure sufficient cash flow. However, as the district's financial condition gradually improved, the district reduced its dependence on the line. The district drew $500,000 from its $1.8 million line in fiscal 2014, the full amount of which it had paid back by the end of the year. At year-end fiscal 2014, the district had $1.4 million in operating cash, equivalent to an adequate but still relatively narrow 7.1% of revenues. The district did not have to cash flow borrow in fiscal 2015, and does not expect to borrow in fiscal 2016 either.

DEBT AND PENSIONS: SLIGHTLY ABOVE AVERAGE DEBT BURDEN; MODEST PENSION EXPOSURE

We expect the district's debt burden to remain manageable. The district's direct debt burden is slightly above average at 2.0% of full value and 1.9 times operating expenditures. The district has no additional plans for long-term borrowing at this time.

Debt Structure

Post-sale principal amortization is rapid with 100% of outstanding GOULT debt retired within 10 years. Save for a small amount of capital leases and the aforementioned line of credit, all of the district's debt consist of long-term, fixed rate GOULT debt.

Debt-Related Derivatives

The district is not a party to any debt-related derivatives.

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 employer contribution to WRS in calendar year 2014 was $504,000, equal to the required contribution, or a modest 2.7% of fiscal 2014 revenues. Moody's adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, was $3.4 million for fiscal 2013. In the three years through fiscal 2013 the district's ANPL averaged a low 0.3 times operating revenues, inclusive of the General Fund and Debt Service Funds, and a modest 0.3% 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. As of July 1, 2014, the most recent actuarial valuation date, the OPEB plan's unfunded actuarial accrued liability (UAAL) was $2.0 million. The plan is funded on a pay-as-you-go basis.

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.

KEY STATISTICS

2014 Full value: $1.9 billion

2014 Full value per capita: $101,000

Median family income as % of the US: 116.4%

Fiscal 2014 available combined operating fund balance / revenue: 29.2%

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

Fiscal 2014 combined operating fund net cash / revenue: 7.1%

5-year change in combined operating fund net cash / revenue: 2.9%

Institutional framework score: Aa

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

Net direct debt burden: 2.0% of full valuation; 1.9 times combined operating revenue

3-year average Moody's adjusted net pension liability: 0.3% of full valuation; 0.3 times combined operating revenue

OBLIGOR PROFILE

The Wilmot Union High School District is located wholly in Kenosha County. The district operates one high school facility, serving the Villages of Silver Lake and Twin Lake, as well as the Townships of Salem, Randall, and Wheatland. The district's fiscal 2015 enrollment was 1,109.

LEGAL SECURITY

Debt service on the district's general obligation bonds, including the Series 2015A bonds, is secured by the district's general obligation unlimited tax (GOULT) pledge to levy a dedicated tax unlimited as to rate or amount.

USE OF PROCEEDS

Proceeds from the bonds will be used to redeem the March 1, 2018 through March 1, 2024 maturities of the district's General Obligation Refunding Bonds, Series 2004B bonds for debt service savings.

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

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