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Ratings

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Summary:

Lake Mills Area School District, Wisconsin; General Obligation

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US$9.39 mil GO sch bldg and imp bnds ser 2019 dtd 03/03/2019 due 03/01/2039		
Long Term Rating	AA/Stable	New
Lake Mills Area School District GO		
Long Term Rating	AA/Stable	Affirmed
Lake Mills Area Sch Dist GO prom nts		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' rating to Lake Mills Area School District, Wis.' general obligation (GO) corporate purpose bonds, dated March 6, 2019. At the same time, we affirmed our 'AA' underlying rating on the district's existing GO debt. The outlook is stable.

The bonds are being issued based on a recently passed referendum to complete expansions and renovations throughout the district, including the addition of six classrooms and a new athletic field. The bonds are GOs of the district, secured by its full-faith-and-credit pledge.

The 'AA' underlying rating reflects our assessment of the district's creditworthiness, specifically its:

- Access to the diverse Madison and Milwaukee metropolitan statistical areas (MSA);
- Good-to-strong income indicators and very strong market value per capita;
- Stable enrollment which helps the district maintain balanced operations under the state's per-pupil revenue limit; and
- Very strong reserve levels.

Offsetting the above strengths are the district's moderate-to-high overall net debt burden and its elevated pension and other postemployment benefit (OPEB) carrying charges.

Overall, the district maintains a strong financial profile, supported by its participation in the Madison and Milwaukee MSAs, which provides access to resources that come with larger, growing economies. The district's location on along the shores of Rock Lake also acts as a draw, bringing in residents who see the location as an attractive place to own second homes. Demonstrating mostly stable operating results in recent years, the district has been able to maintain a strong reserve position. Finances have also been supported by gradual enrollment increases, which helps maintain its three-year moving enrollment average, thereby resulting in higher revenue. The district has elevated fixed costs,

related to its debt, pension, and OPEB burden, which could limit flexibility. While we note that the debt burden has deteriorated somewhat based on this series 2019 issuance, the district is backed by a strong and stable economy, home to the voters who approved the debt. Given all of these factors, we believe the rating will remain stable at this level.

Economy

Located along Interstate-94, roughly 30 miles from Madison and 50 miles from Milwaukee, Lake Mills Area School District serves a population of 9,755. While its economy is centered primarily on agriculture and small manufacturing, its location along the interstate provides residents with access to the Madison MSA, as well as Milwaukee's western suburbs for employment opportunities. Within the district, top employers include the district itself (277 employees), Crystal Farms Refrigerated (200), and the City of Lake Mills (110). In our opinion, median household effective buying income (EBI) is strong at 111% of the national level, but per capita EBI is good at 100%.

Due in part to the district's location along Rock Lake, valuations have seen significant increases in recent years. Equalized value (EV; excluding tax-increment districts [TID]) grew by a total of 15.3% since 2014 to $1.0 billion in 2019. Beyond the increasing value in lakefront properties and other housing, there has been significant expansion to old properties, leading to higher valuations. A new TID is being developed on the northern edge of the district, which will include new housing, as well as some commercial and industrial development. At $107,843 per capita, the 2019 EV (including TIDs) totaling $1.1 billion is, in our opinion, extremely strong. Based on the recent trends and continued development, management expects the upward tick in valuations to continue for the foreseeable future. Roughly 3.3% of EV (excluding TIDs) comes from the 10 largest taxpayers, representing a very diverse tax base, in our opinion.

Finances

A three-year moving enrollment average is a key factor in Wisconsin school district per-pupil revenue, which is subject to a cap that the state determines. Although annual student count fluctuations do not have a material effect on finances, a trend of increasing or decreasing enrollment could lead to corresponding increases or decreases in revenue. Enrollment totaled 1,524 in 2019, growing in each year from 2015 to 2019, increasing by a total of 3.6% during that time.

The district's steadily growing enrollment has helped to provide financial stability, but fiscal year-end (June 30) 2017 saw a 5.6% deficit, amounting to roughly $1.2 million. While management attributes this deficit to a board-planned drawdown of roughly $1 million to cover several projects at the high school, the remainder of the deficit (roughly $200,000) was due to an over-budgeting of revenues and under-budgeting of expenditures in the original budget. The district, which has since made changes to its management team, has corrected for these oversights and returned to normal operations in fiscal 2018, reporting an operating surplus of $63,000, or 0.4% of expenditures. Its 2018 audit shows that it was able to end the year with a positive variance over its original budget. Projections for the 2019 fiscal year are exactly break-even.

Even after the drawdown in fiscal 2017, the district's available fund balance of $4.1 million is very strong, in our view, at 28% of general fund expenditures in fiscal 2018. Management confirmed that it has no plans to draw down fund balance within the next year, although there could be a decrease of roughly $400,000 from general fund reserves in 2020 or one of the following years as the board decided to use fund balance in addition to the current bond issuance to

pay for the district's athletic field. If this were to happen, we would expect our view of the district's financial position to remain unchanged, at a level we consider very strong.

Management

We consider the district's management practices good under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Management uses historical financial data and a line-by-line approach when creating the district's annual budget. It also makes use of outside sources to make budgetary adjustments for external trends. Management presents the board with budget-to-actual results on a monthly basis, which also allows for budgetary amendments as needed. The district maintains a long-term financial plan, providing projections for the current budget year and the two subsequent years, that is updated on an annual basis. It also has a rolling 10-year capital plan. The district maintains its own investment management policy, as well as its own fund balance policy, which requires unassigned fund balance to be at least 20% of expenditures, with which it has historically been in compliance. It does not have its own debt management policy.

Debt

At 5.5% of market value, we consider overall net debt as moderate, but at $5,910 on a per capita basis, we view it as high. Amortization is average, with 56% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 11.8% of total governmental fund expenditures (excluding capital outlay) in fiscal 2018, which we consider moderate.

The district has no plans to issue additional debt within the next two years. Management also confirmed that the district does not have any direct-purchase or privately placed obligations that could pose a threat to the district's liquidity.

Pension and other postemployment benefit liabilities

In fiscal 2018, the district paid $1.1 million toward its pension obligations, equal to 100% of the full required contribution. Its full required pension contribution totaled 2.9% of total governmental expenditures. It also paid $418,000, or 2.0% of total governmental expenditures, toward its OPEB obligations in fiscal 2018. Combined pension and OPEB carrying charges totaled 4.9% of total governmental fund expenditures in 2018.

The district contributes to Wisconsin Retirement System, a cost-sharing, multiple-employer, defined-benefit plan for retiree pension benefits. The system is 103% funded on a statewide basis. For fiscal 2018, the district reported an asset of roughly $1.7 million for its proportionate share of the system's net pension liability. It also offers a single-employer defined-benefit pension plan to eligible employees who opted out of medical coverage while employees with a cash benefit in lieu of continued medical coverage. At fiscal year-end 2018, the district reported a liability of $1.4 million for this plan, and made a contribution of $259,000, or 1.2% of expenditures. It funds its OPEBs on a pay-as-you-go basis.

Outlook

The stable outlook reflects our expectation that the district's enrollment and local economy will remain stable, which will help maintain its stability in funding. We also expect management to continue to budget conservatively to

maintain balanced operations, and that the district will maintain at least strong reserves over the next two years. Therefore, we do not expect to change the rating within our two-year outlook horizon.

Upside scenario

We could raise the rating if the district's economic indicators improved to levels commensurate with higher rated peers, coupled with moderation of debt and carrying charges to levels comparable with higher rated peers, assuming no deterioration in other credit factors.

Downside scenario

We could lower the rating if the district's finances deteriorate materially, decreasing its reserves to a level no longer comparable with that of similarly rated peers. We could also do so if the debt burden materially increases, pressuring the district's finances.

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