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Ratings

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Summary:

Lake Mills Area School District, Wisconsin; General Obligation

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Credit Profile		
US$12.925 mil GO rfdg bnds dtd 12/01/2021 due 03/01/2032		
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

Rating Action

S&P Global Ratings assigned its 'AA' rating to Lake Mills Area School District (ASD), Wis.' roughly $12.925 million general obligation (GO) refunding bonds. At the same time, we affirmed our 'AA' rating on the district's outstanding debt. The outlook is stable.

An ad valorem-property-tax pledge, unlimited as to rate or amount, secures the district's unlimited-tax GO refunding debt.

Officials plan to refund the district's 2012 GO school improvement bonds, 2014 refunding bonds, and the 2014 GO promissory notes for interest cost savings.

Credit overview

Lake Mills ASD benefits from access to Madison and Milwaukee's western suburbs, reflected in good incomes and extremely strong market value. The district has seen consistent tax base and enrollment growth, which has led to capital needs. This growth, however, could pressure the district's debt burden in the future and should the district's debt burden materially worsen, a lower rating is possible. It has posted positive operating results over the last three fiscal years, reflecting management's conservative budgeting practices and the receipt of federal stimulus in fiscal years 2020 and 2021. Overall, its financial profile has remained very strong.

The rating reflects our view of the district's:

- Local economy with access to the diverse Madison and Milwaukee metropolitan statistical areas (MSAs), coupled with a property tax base that has grown during the past few years;
- Adequate management policies and practices;
- Very strong reserves with a history of positive operations and increasing enrollment; and
- The district's moderate-to-high debt burden.

Environmental, social, and governance factors

We have analyzed the district's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile and have determined all are in line with what we typically observe with sector peers.

Stable Outlook

Downside scenario

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

Upside scenario

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

Credit Opinion

Local economy that has access to Madison and Milwaukee MSAs, with a growing tax base

The approximately 78-square-mile district is in Jefferson County and is centrally located with access to the Madison MSA. District residents have access to broader employment opportunities in Madison, and additionally have access to Milwaukee's western suburbs, reflected in the district's good incomes and extremely strong market value. It has experienced steady population growth during the past five years that has brought a corresponding growth in enrollment.

Officials report economic disruption due to COVID-19 was minimal, with no business closures and leading area employers continuing uninterrupted throughout 2020. County unemployment was 5.4% in 2020 due to COVID-19 compared with 6.3% in Wisconsin. Management primarily attributes equalized value (EV) growth to continued housing development. EV increased by roughly 10% to $1.18 billion for 2020. A combination of state aid and local sources make up the bulk of the district's revenues, of which 54% was state aid and 35% was local sources in fiscal 2020.

Recent positive operations and trend of growing enrollment

Lake Mills ASD grade pre-K-12 enrollment steadily increased by 3.4% annually from school years 2018-2019 to 2020-2021, which management attributes to residential development and the addition of new families. Notably, the district's enrollment was not weakened by the COVID-19 pandemic. 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. Management anticipates enrollment will continue to grow in the upcoming years. Given the district's economic growth, we believe the district's projected growth is achievable.

The district has posted surplus operating results during the past three audited fiscal years, ended June 30. For fiscal 2020, it posted a $253,000 general fund surplus, or 1.3% of general fund expenditures. Officials attribute this surplus result to conservative budgeting, claimed grant funds, and management's concerted efforts to return the district's finances to fiscal health. Its total government available cash as a percentage of expenditures decreased in fiscal 2020 largely as a result of its completion of a high school capital project.

For fiscal 2021, the district had anticipated a deficit budget result. However, officials estimate a $600,000 surplus general fund result due primarily to operations savings from the limited in-person instruction setting during the school year and federal stimulus for COVID-19-related expenses. The district received roughly $78,000 in CARES Act funding, which the budget includes. Officials used these funds to cover COVID-19-related expenses and technology upgrades. The district also received a $318,000 allocation in additional federal stimulus in December 2020 to support a new greenhouse, instruction support, literacy intervention, and to offset planned deficits. Officials expect an estimated $715,000 from the American Rescue Plan Act of 2021; they are still developing plans for these funds.

For fiscal 2022, the district's adopted budget includes a planned $308,000 deficit, or 1.6% of general fund expenditures. However, management notes that it anticipates federal stimulus funds will make the fiscal 2022 budget break-even. With the receipt of federal stimulus, and no significant plans for a draw on general fund deficits, we think the district will be able to achieve break-even results for fiscal 2022.

Adequate Financial Management Assessment (FMA) supporting consistent financial results recently

We have revised our view of the district's FMA from good to adequate based on our view that the district's long-term planning practices have changed since our last review.

Highlights include management's:

- Strong revenue and expenditure assumptions and the use of historical data with monthly budget-to-actual performance reports to the school board and ability to amend the budget as needed;
- A 10-year long-range capital plan that is updated annually, although it is our opinion that the plan is not sophisticated or robust;
- Debt and investment management and policies that largely mirror state law and investments are reported to the board in the annual audit; and
- Formally adopted fund-balance policy of maintaining 20% of current-year expenditures, a policy with which it has historically complied.

The district does not currently maintain a long-term financial plan for operations. Its cybersecurity practices align with what we typically observe with peers.

High-to-moderate debt

At 4.8% overall net debt as a percent of market value, and with an overall net debt per capita of $5,502, we consider the district to have high-to-moderate debt. There is no privately placed debt.

Pension and other postemployment benefit highlights:

The district's pension and other postemployment benefit (OPEB) costs are modest as a share of total spending and are not likely to accelerate significantly in the medium term given the pension plan's strong funded status. Lake Mills ASD participates in the Wisconsin Retirement System (WRS), a multiple-employer, defined-benefit pension plan that in recent years has routinely been among the best-funded multiple-employer pension plans in the country. It also sponsors and administers a single-employer, defined-benefit supplemental pension for qualifying administrators and teachers. Lake Mills ASD provides OPEBs through a single-employer, defined-benefit health care plan.

Contributions to WRS are actuarially based, and Lake Mills ASD funds 100% of its required contribution each year. Contribution volatility risk is shared, limited risk to the district. For more details about the plan, see "Pension Spotlight: Risk Sharing Dilutes Pension Burden For Five States" April 21, 2021.

The district participates in the following pension and OPEB plans:

- WRS: 103% funded (as of Dec. 31, 2019), with an estimated school district proportionate share of the plan's net pension asset of $1.88 million.
- A supplemental pension plan funded on a pay-as-you-go basis, with a net pension liability of $1.72 million (as of June 30, 2020).
- A single-employer, defined-benefit health care OPEB plan: 24.4% funded, with an established trust (as of June 30, 2020) and with a net OPEB liability of $1.23 million.

Lake Mills ASD's combined pension and OPEB contributions were 3.7% of governmental fund expenditures in fiscal 2020. Contributions to WRS are actuarially based, and the district funds 100% of its required contribution each year. While WRS' 7% return assumption exceeds our 6% guideline, exposure to market volatility is mitigated because the plan employs a shared risk model where investment performance fluctuations are offset by changes in active employee contributions and in adjustments in benefit payments. Because of these features, we expect contributions will remain relatively stable, and given the plan's strong funded status and strong contribution practices, we expect they will also remain affordable.

Lake Mills Area School District, Wisconsin -- Key Credit Metrics

	Characterization	Most recent	Historical information		
			2020	2019	2018
Economic indicators					
Population			9,832	9,870	9,760
Median household EBI % of U.S.	Good		108	112	118
Per capita EBI % of U.S.	Good		97	98	104
Market value ($000)		1,230,544	1,116,697	1,052,008	1,000,936
Market value per capita ($)	Extremely strong	125,157	113,578	106,586	102,555
Top 10 taxpayers % of taxable value	Very diverse	8.6	3.1	3.3	3.5
Financial indicators					
Total available reserves ($000)			4,716	4,457	4,134
Available reserves % of operating expenditures	Very strong		25.0	29.1	27.8
Total government cash % of governmental fund expenditures			14.2	52.6	15.3
Operating fund result % of expenditures			1.3	2.2	0.4

Lake Mills Area School District, Wisconsin -- Key Credit Metrics (cont.)					
	Characterization	Most recent	Historical information		
			2020	2019	2018
Financial Management Assessment	Good				
Enrollment		1,586	1,568	1,524	1,516
Debt and long-term liabilities					
Overall net debt % of market value	Moderate	4.5	4.8	5.3	4.8
Overall net debt per capita ($)	High	5,594	5,502	5,674	4,945
Debt service % of governmental fund noncapital expenditures	Moderate		9.2	10.9	10.9
Direct debt 10-year amortization (%)	Fairly Rapid	72	66	61	63
Required pension contribution % of governmental fund expenditures			2.8	3.5	3.7
OPEB actual contribution % of governmental fund expenditures			1.0	1.8	2.0
Minimum funding progress, largest pension plan (%)			84.1	134.4	0.0

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020