STANDARD & POOR'S RATINGS SERVICES
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Summary:

Lake Mills Area School District, Wisconsin; General Obligation

Primary Credit Analyst:
Carol H Spain, Chicago (1) 312-233-7062; carol.spain@standardandpoors.com

Secondary Contact:
David H Smith, Chicago (312) 233-7029; david.smith@standardandpoors.com

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Summary:

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Credit Profile		
US$5.63 mil GO rfdg bnds dtd 03/26/2015 due 03/01/2028		
Long Term Rating	AA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Lake Mills Area School District, Wis.' general obligation (GO) refunding bonds dated March 26, 2015. At the same time, Standard & Poor's affirmed its 'AA' long-term rating and underlying rating (SPUR) on the district's existing GO debt. The outlook on all ratings is stable.

The rating reflects our opinion of the district's:

- Access to the diverse Madison and Milwaukee metropolitan area economies;
- Good income and very strong wealth indicators;
- Increasing enrollment trend, which is directly tied to state aid receipts; and
- Very strong general fund reserves, supported by consistently strong operating results.

In our view, the district's high per capita debt burden is an offsetting factor. While we consider district incomes good, they are below those of higher rated peers.

The district's unlimited-tax, full faith and credit GO pledge secures debt service on the bonds and the notes. District officials will use the GO refunding bond proceeds to advance refund a portion of the GO improvement bonds dated March 2, 2009.

Lake Mills Area School District is in Jefferson County, where it serves an estimated population of 9,360. It is along Interstate 94 between Madison and Milwaukee, spanning 78 square miles. The local economy centers on agriculture and small manufacturing; residents also have access to employment opportunities in Madison, about 25 miles to the west, and the Milwaukee suburbs. Jefferson County's average annual unemployment rate in 2013 was 6.2%, below the state average of 6.7% and the national average of 7.4%. Jefferson County unemployment decreased to 5.3% as of December 2014. We consider median household and per capita effective buying incomes good at 103% and 98%, respectively, of national levels. Equalized value (EV) decreased from 2011 through 2013, before increasing in 2014 by 4.3% due to rebounding property values and rising building activity. EV on a per capita basis totals $96,570, which we view as very strong. Management expects modest growth in the future.

Enrollment has increased at an annual average of 2% during the past six years to 1,473 in school year 2014-2015 and officials expect it to be stable over the next few years. A three-year moving enrollment average determines Wisconsin school district revenue. While annual fluctuations in the student count do not have a material effect on finances, continuing positive or negative enrollment trends could lead to an increase or decrease, respectively, in revenue.

The district's steady enrollment trend has contributed to finances we consider very strong. Most recently, it reported a $294,000 general fund surplus to end fiscal 2014, increasing reserves to $4 million, or a very strong 27% of expenditures. The surplus was tied to various revenues coming in better and below budgeted expenditures. In fiscal 2013, the district experienced a slight deficit of $34,000; however, we understand this reflected a transfer of $695,000 of unspent bond proceeds from the general fund to the debt service fund to lower the debt service levy and the timing of the settlement of labor agreements, and was not related to operations. Management has budgeted for a slight, $54,000 surplus for fiscal 2015, and actual results are tracking closely with the budget so far. In fiscal 2016, management expects to supplement the current bond issuance proceeds with $300,000-$500,000 of general fund cash to complete the capital improvement projects, but reserves would remain very strong. Currently, the proposed school funding formula for the upcoming biennium is relatively flat compared with fiscal 2015, and management indicated that it would take measures to be operationally balanced over the next two years.

Through electorate approval, the district has exceeded the revenue limit during the past decade. Out of four referendums, the override has been approved two times, in 2006 and 2008. The most recent override, which raised $200,000 annually for technology purposes, expired in fiscal 2013. Management has not plannedto seek another revenue limit override due to its current financial position, nor does it plan to do so, particularly because of the pension and health care cost savings it has achieved under the Wisconsin Budget Repair Bill.

We consider the district's financial management practices "good" under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. The district has a formal policy to maintain a 20% operating reserve. It also has comprehensive and realistic budget assumptions and reports to the board frequently on budget-to-actual results. The district maintains a five-year facilities plan, but it has not updated its long-term financial plan for operations in recent years.

Overall debt, including overlapping debt, is $5,092 per capita, which we consider high. As a percentage of estimated market value, overall net debt is 5.3%, which we consider moderate. Debt service carrying charges are 11.23% of governmental expenditures, which we also view as moderate. The district plans to retire 47% of its direct debt within 10 years, which we view as average. The district has no future debt plans at this time.

The district participates in the Wisconsin Retirement System, a state-administered pension plan, and a supplemental pension defined-benefit plan for its employees. Fiscal 2014 pension contributions from the district equaled 3.2% of governmental expenditures less capital outlay. The district also provides other postemployment benefits (OPEBs) for its employees. As of the most recent actuarial date of July 1, 2012, the OPEB plan was 5.6% funded. The supplemental pension plan was 10% funded. Combined fiscal 2013 contributions equaled 5.9% of governmental expenditures less capital outlay, which we view as manageable.

Outlook

The stable outlook reflects our expectation that the district will maintain balanced operations and very strong general fund reserves, even considering draws on the general fund balance for capital purposes. The district's participation in the Milwaukee and Madison broad and diverse area economies supports our view that economic indicators and enrollment will remain stable or grow.

If the district's reserves deteriorate substantially to levels we no longer consider very strong, we could lower the rating. A higher rating would require material improvement in the district's income levels and debt profile, which we do not anticipate within the two-year outlook period.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of March 9, 2015)		
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
Lake Mills Area Sch Dist GO (ASSURED GTY)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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