MOODY'S
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New Issue: Moody's assigns Aa2 to East Troy CSD, WI's $20.0M GO Ref. Bonds

Global Credit Research - 05 Aug 2015

Aa2 applies to $21.6M of GO debt, post-sale

EAST TROY COMMUNITY SCHOOL DISTRICT, WI
Public K-12 School Districts
WI

Moody's Rating

ISSUE	RATING
General Obligation Refunding Bonds	Aa2

Sale Amount	$20,000,000
Expected Sale Date	08/17/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, August 05, 2015 --Moody's Investors Service has assigned a Aa2 to East Troy Community School District, WI's $20.0 million General Obligation (GO) Refunding Bonds. Concurrently, Moody's maintains the Aa2 on the district's outstanding GO debt. Post-sale, the district will have $21.6 million of outstanding GO debt.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the district's the district's moderately-sized tax base that has begun to rebound; sound financial operations despite declining enrollment; average debt burden; and affordable pension obligations.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

-Material expansion of the district's tax base and/or socioeconomic profile

-Substantial increase in General Fund reserves

-Increase in liquidity eliminating the need to cash flow borrow

WHAT COULD MAKE THE RATING GO DOWN

-Larger than expected enrollment declines that negatively affect operations

-Sizable growth in the district's debt burden and fixed costs

STRENGTHS

-Favorable location within commuting distance to the city of Milwaukee (Aa3 stable) and surrounding suburban employment centers

-Sound financial operations supported by healthy reserves

CHALLENGES

-Reliance on cash flow borrowing due to timing of major operating revenue sources

-Declining enrollment trends which factors negatively into the state aid distribution formula

RECENT DEVELOPMENTS

Recent developments are incorporated into the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: MODERATELY SIZED TAX BASE LOCATED SOUTHWEST OF MILWAUKEE; REBOUNDING VALUATION

The district's tax base is expected to experience modest growth as valuations continue to regain value following consecutive declines and modest development prospects. Located approximately thirty miles southwest of Milwaukee in Walworth County (Aa1), the district encompasses approximately 100 square miles and serves over 8 municipalities. Previously, the district's moderately-sized $1.5 billion tax base had declined at a sharp 2.8% five year annual rate through 2013 primarily due to depreciation in the local residential housing market. However, growth began to recover in 2014 and the tax base expanded by 1.9% and district officials expect modest growth going forward.

Wealth indices within this largely residential district approximate national levels with median family income at 118.4% of the national average according to estimates from the 2008 to 2012 American Community Survey. At 4.7% in May 2015, the unemployment rate in Walworth County approximated the state's rate of 4.7% and tracked below the nation's rate of 5.3% for the same time period.

FINANCIAL OPERATIONS AND RESERVES: SOUND FINANCIAL OPERATIONS EXPECTED TO REMAIN STABLE; MODESTLY DECLINING ENROLLMENT

Despite a declining enrollment trend, we expect the district's financial operations will remain stable given historically conservative budgeting practices resulting in year over year growth in reserve levels. The district closed with operating surpluses for each of the past six fiscal years, with General Fund reserves increasing to $3.2 million, or a healthy 18.1% of General Fund revenues, in fiscal 2014. The district attributes the positive operations primarily to savings realized from favorable budget variances in utilities and personnel costs. While the district budgeted for balanced operations in fiscal 2015, management expects to record a $256,000 surplus. For fiscal 2015, the district anticipates utilizing $100,000 in General Fund reserves, reducing the General Fund balance to $3.3 million, or 18.9% of fiscal 2014 General Fund revenues.

Like all Wisconsin (Aa2 positive) school districts, the district operates under state imposed revenue limits, which are indexed to enrollment trends. As such, periods of stagnant or declining enrollment can pressure a district's financial operations if they are unable to control expenditures to match revenue trends. The district's enrollment has declined at an average annual rate of 0.6% since 2010. The district's enrollment projections for the next five years incorporate modest declines, reflecting the somewhat mature nature of the community served by the district. We expect the district to maintain balanced operations despite these revenue pressures.

Liquidity

Typical of many Wisconsin school districts, the district issues cash flow notes on an annual basis to cover low cash points in the fiscal year in anticipation of property tax receipts and state aid payments. The district borrowed $4 million in fiscal 2014, and expects to borrow equal to or less than that amount for fiscal 2015 as a result of recently improved reserve levels. This amount reflects a notable 22.8% of annual General Fund revenues. Net of cash flow borrowing the district's General Fund cash and investments totaled $298,000 at the end of fiscal 2014, which marked the district's first positive net cash balance in the last five years. The district's notes are due in October after the fiscal year end, and are repaid from tax revenues received in August. The district does not roll its notes. Officials note that the amount of cash flow borrowing has remained fairly stable and is expected to remain at the current level going forward.

DEBT AND PENSIONS: MANAGEABLE DEBT BURDEN AND AFFORDABLE PENSION OBLIGATIONS

The district's debt burden is expected to remain manageable due primarily to its average direct debt position and lack of planned future borrowing. At 1.5% of full value, the district's direct debt burden is average and its overall debt burden is average at 2.3%, which reflects overlapping debt issued by surrounding municipalities.

The district received voter approval on April 7, 2015 to issue $24.7 million of GO bonds to finance the cost of a school building and various construction improvements across the district. Post-sale, the final $4.7 million will be issued as sometime next spring.

Debt Structure

Inclusive of the current issuance, the district's debt profile includes $21.6 million of GO debt outstanding. Principal amortization is slow, with only 35% of its outstanding debt retired within the next ten years, but in line with the useful life of the finance assets.

Debt-Related Derivatives

All of the district's debt is fixed rate, and the district is not a party to any interest rate swap agreements.

Pensions and OPEB

The district's exposure to the state multi-employer pension plan, the Wisconsin Retirement System (WRS), is expected to remain manageable. Starting in fiscal 2012, the district only contributes toward the employer share of Wisconsin Retirement System (WRS) costs in accordance with state legislation (Act 10), which prohibits local governments from making non-public safety employee contributions to WRS on behalf of employees. The district's employer contributions in fiscal 2013 were $529,000 million, or a modest 2.6% of operating expenditures. The district has historically made its required contributions to WRS.

The three year average Moody's adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is a low 0.4 times operating revenues and 0.5% of full value. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended 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 contributions to the plan and covered payroll.

MANAGEMENT AND GOVERNANCE: PER PUPIL REVENUE LIMITS BUT HIGH DEGREE OF EXPENDITURE FLEXIBILITY; SOUND MANAGMENT

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.

Management has proved to be sound in recent years as evidenced by its ability to maintain reserves in line with its formal fund balance policy and historically positive budget to actual variances.

KEY STATISTICS

2014 Full Market Valuation: $1.5 billion

2014 Full Value Per Capita: $124,300

2008-2012 American Community Survey Median Family Income: 118.4% of US

Fiscal 2014 Available Operating Fund balance: 15.8% of revenues

5-Year Dollar Change in Operating Fund Balance as % of Revenues: 7.7%

Net Operating Cash Balance: 0.4% of revenues

5-Year Dollar Change in Cash Balance as % of Revenues: 8.4%

Institutional Framework: Aa

Operating History: 5-Year Average of Operating Revenues / Operating Expenditures: 1.02

Net Direct Debt / Full Value: 1.5%

Net Direct Debt / Operating Revenues: 1.1x

3-Year Average of Moody's ANPL / Full Value: 0.5%

3-Year Average of Moody's ANPL / Operating Revenues: 0.4x

OBLIGOR PROFILE

The prekindergarten through high school district serves the Village of East Troy and portions of seven smaller surrounding towns with a student enrollment of 1,663.

LEGAL SECURITY

The bonds are secured by the district's GO unlimited tax pledge, which benefits from a dedicated property tax levy that is not limited by rate or amount.

USE OF PROCEEDS

Proceeds from the sale of the bonds will be used to current refund the district's outstanding Bond Anticipation Notes (BANs) previously issued on June 8, 2015. The BANs are scheduled to mature on October 1, 2015.

PRINCIPAL 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.

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