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CREDIT OPINION
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Milton School District, WI

Initial rating

Summary

Milton School District (Aa3) has seen growing valuation and enrollment over the last five years. This has helped allow for stable financial operations, despite the need to cash flow borrow. Voters approved a large debt issuance which will allow the district to address capital needs across the district, but will result in an elevated debt burden for the district. This is balanced against manageable pension liabilities.

Credit strengths

» Growing enrollment (GO)

» Diversification and strengthening of the local tax base (GO)

» Stable, healthy finances (GO)

» Strong takeout financing (BANs)

Credit challenges

» Elevated direct and overlapping debt levels (GO)

» Weak liquidity coverage (BANs)

Rating outlook

Outlooks are typically not assigned to local governments with this amount of debt.

Factors that could lead to an upgrade

» Strengthening of district finances (GO)

» Moderated debt burden (GO)

Factors that could lead to a downgrade

» Increased debt and pension liabilities (GO)

» Declines or concentration in the tax base (GO)

» Weakening of the district's finances or liquidity (GO & BAN)

» Deterioration of the district's long-term credit quality (BAN)

Key indicators

Exhibit 1

Milton School District, WI	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$1,545,922	$1,594,185	$1,639,130	$1,703,597	$1,808,478
Population	19,123	19,284	19,233	19,303	19,303
Full Value Per Capita	$80,841	$82,669	$85,225	$88,256	$93,689
Median Family Income (% of US Median)	119.2%	122.6%	117.8%	121.9%	121.9%
Finances					
Operating Revenue ($000)	$37,285	$37,932	$38,109	$41,233	$42,807
Fund Balance ($000)	$7,912	$7,979	$7,446	$7,120	$7,207
Cash Balance ($000)	$5,455	$5,742	$6,775	$6,918	$6,876
Fund Balance as a % of Revenues	21.2%	21.0%	19.5%	17.3%	16.8%
Cash Balance as a % of Revenues	14.6%	15.1%	17.8%	16.8%	16.1%
Debt/Pensions					
Net Direct Debt ($000)	$4,141	$2,729	$4,264	$2,386	$1,383
3-Year Average of Moody's ANPL ($000)	N/A	$26,446	$37,219	$41,996	$46,498
Net Direct Debt / Full Value (%)	0.3%	0.2%	0.3%	0.1%	0.1%
Net Direct Debt / Operating Revenues (x)	0.1x	0.1x	0.1x	0.1x	1.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.7%	2.3%	2.5%	2.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.7x	1.0x	1.0x	1.1x

Sources: Moody's Investors Service, audited financial statements, US Census Bureau

Profile

Milton School District is located in Rock County (Aa1) and Jefferson County (Aa2) and serves the City of Milton (A1), seven towns, and portions of the City of Janesville. It is about 40 miles southeast of Madison (Aaa negative) and 40 miles north of Rockford (A2 negative), IL. The district has a population of approximately 19,300 and provides pre-K though 12th education for about 3,600 students.

Detailed credit considerations

Economy and tax base: growing valuation; near multiple large metro areas

Moody's expects the diversification and growth in the district's tax base will continue. In 2008 the local General Motors (senior unsecured Baa3 stable) plant in the area closed. By 2009 unemployment in Rock County had reached 12.9%, compared to 9.3% for the nation. Since then, however, things have dramatically improved. In March 2019, the county's unemployment was 3.6% and tracking lower than the national figure of 3.9%. Similarly, valuation has rebounded. After a reaching a high of $1.7 billion in 2008, the tax base dropped $150 million by 2014. Since then it has grown to $1.8 billion in 2018, with a five year annual increase in full value of 3.2%. The district's location within commuting distance of multiple large cities, from Madison to Rockford, continues to provide various employment opportunities for residents. This has helped the district continually maintain high MFI, which is currently 122% of the national level.

Financial operations and reserves: healthy reserves; growing enrollment

We expect the district's financial profile to remain satisfactory given a history of conservative budgeting. The district's available operating fund (general and debt service funds) balance has remained in the range of $7.1 million to $8 million over the last five years. The fiscal 2018 available fund balance was $7.2 million, or 16.8% of operating revenues. Despite an unexpected capital expense of about $200,000 in fiscal 2019 to repair the district's pool, management anticipates the general fund will end the year essentially balanced.

Like all Wisconsin school districts, the district operates under state imposed revenue limits, which are indexed to enrollment trends. As such, periods of flat or falling enrollment can pressure a district's operations if they are unable to control expenditure growth.

At present overall district enrollment for pre-kindergarten through 12th grade is 3,588 students. Positively, the district's enrollment is exhibiting a 1.2% five year average annual increase and is projected to add about 125 more students in the upcoming five years. Although the district loses more students than it gains to open enrollment, this figure has moderated from a net loss of about 100 students annually to 50.

In 2016 district voters approved a five year operational levy override approved for $2.5 million annually. The district plans to return to voters in fall 2020 or spring 2021 before the override expires to request its renewal.

LIQUIDITY

The district closed fiscal 2018 with an operating fund net cash position of $6.9 million or 16.1% of operating revenue. This is net of the $2.5 million in cash flow borrowing the district engages in.

Debt and pensions: elevated debt; manageable pensions

With an upcoming issuance of debt, the district's liabilities will greatly increase but will remain manageable. In April 2019 voters approved a referendum for $59.9 million for a variety of district-wide improvement projects. Post-issuance the district's debt will be an elevated 3.1% of full value and 1.4x operating revenue. Fixed costs made up 10.5% of the district's operating revenues at the end of 2017, but will grow with the district's increased debt service payments.

DEBT STRUCTURE

The district currently has no long-term debt outstanding. It will be issuing the aforementioned BANs which mature in August 2019. The district plans to take them out with general obligation bonds which have already been authorized. District liquidity in comparison to the short-term debt is very weak at approximately 16%.

DEBT-RELATED DERIVATIVES

The district has no exposure to debt-related derivatives or interest rate swap agreements.

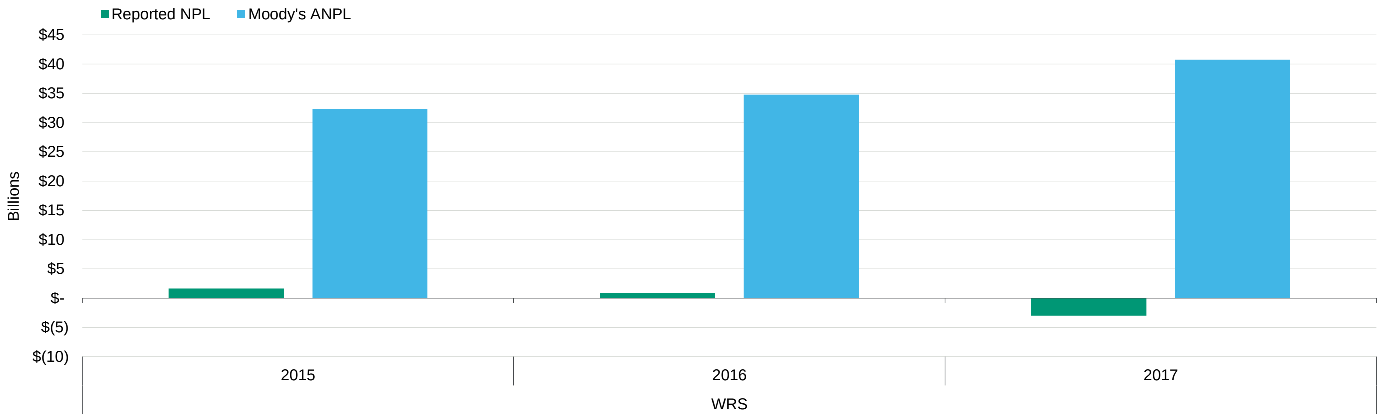
PENSIONS AND OPEB

The district participates in the Wisconsin Retirement System (WRS), a statewide cost-sharing plan. Contributions are determined using a level contribution actuarial method in an effort to keep employer and employee contribution rates at a level percentage of payroll over time, and are set at 100% of the plan's funding requirement. As a result, WRS remains one of the best-funded public employee retirement systems in the country, with statewide employer contributions to WRS in 2017 totaling 107.7% of the amount needed to tread water[1].

The district's adjusted net pension liability (ANPL) was $54 million in 2017, up from $41.2 in 2015, bringing the three-year average to $46.5 million, or 1.1x operating revenue and 2.6% of full value. Moody's ANPL reflects the use of a market-based discount rate to value pension liabilities rather than the assumed rate of investment return on plan assets. In comparison, the reported a net pension asset, based on the plan's 7.2% discount rate, was $3.6 million in fiscal 2017.

Growth in the Moody's ANPL has been driven largely by falling market discount rates, however the plan's NPL has benefited from strong investment performance in recent years, with WRS reported a net pension asset as of fiscal 2017. (See Exhibit 2.)

Exhibit 2
Wisconsin Retirement System remains well-funded on a reported basis



Sources: Moody's Investors Service, State of Wisconsin

The district's other post-employment benefits (OPEB) obligations do not pose a material credit risk. The OPEB liability reflects an implicit rate subsidy for retirees who pay to remain on the district's health plan and is funded on a pay-as-you-go basis, with contributions of $1.1 million in fiscal 2017. As of June 30, 2017, the most recent actuarial valuation date, the net OPEB liability totaled $10.7 million, or 0.25x operating revenue.

Management and governance: strong institutional framework

Wisconsin school districts have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's main revenue sources are property taxes and state aid. . Districts operate under revenue limits but have the ability to request voter authorization for levy overrides. Revenues and expenditures tend to be predictable. While state aid has been reduced in recent years, Act 10 legislation provides school districts with considerable expenditure flexibility as it curbs the bargaining power of non-public safety government employees. Across the sector, fixed and mandated costs are generally modest.

The district operating fund revenues is mainly from state sources (57%), followed by local sources (34%).

Rating methodology and scorecard factors

The US Local Government General Obligation Rating Methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Rating Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$1,927,841	Aa
Full Value Per Capita	$99,873	Aa
Median Family Income (% of US Median)	121.9%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	16.8%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	-0.2%	Baa
Cash Balance as a % of Revenues	16.1%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	1.7%	A
Notching Factors:[2]		
Other Analyst Adjustment to Finances Factor: Five year financial trends muted due to stable operations		Up
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Baa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	3.0%	A
Net Direct Debt / Operating Revenues (x)	1.4x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.4%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.1x	A
	Scorecard-Indicated Outcome	Aa3
	Assigned Rating	Aa3

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology dated December 16, 2016.
Sources: Moody's Investors Service, audited financial statements, US Census Bureau

Endnotes

1 Employer contributions that tread water equal the sum of current year service cost and interest on reported net pension liabilities at the start of the year, using reported actuarial assumptions. If plan assumptions are met exactly, contributions equal to the tread water indicator will prevent the reported net pension liabilities from growing. Net liabilities may decrease or increase in a given year due to factors other than the contribution amount, such as investment performance that exceeds or falls short of a plan's assumed rate of return.

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