MOODY'S
INVESTORS SERVICE

Rating Update: Moody's confirms Middleton-Cross Plains Area School District, WI's Aaa GO rating

Global Credit Research - 14 Apr 2014

Aaa applies to $88 million of outstanding GOULT debt

MIDDLETON-CROSS PLAINS AREA SCHOOL DISTRICT, WI
Public K-12 School Districts
WI

Opinion

NEW YORK, April 14, 2014 --Moody's Investors Service has confirmed the Aaa rating on Middleton-Cross Plains Area School District, WI's general obligation (GO) debt. The bonds are secured by the district's GO unlimited tax pledge. As of April 1, 2014, the district has $88 million of outstanding GO debt. This action concludes a review for possible downgrade that Moody's initiated on January 15, 2014 in conjunction with our new local government GO methodology.

SUMMARY RATINGS RATIONALE

The Aaa rating reflects the district's large tax base favorably located within the broader Madison (Aaa stable) metropolitan area, sound financial position with healthy reserve levels, strong management practices and community support, growing enrollment, moderately elevated debt burden characteristic of a growing district, and modestly-sized unfunded pension liabilities.

STRENGTHS:

- Favorable location within Madison metro region, with a growing population and strong income indices

- Healthy General Fund balance following six years of surplus operations

- Strong community support, as indicated by recent passage of excess operating levy and bond referendum to increase district capacity

- Growing enrollment and strong open enrollment demand

- Small unfunded pension liability

CHALLENGES:

- Somewhat narrow net cash position; annual cash flow borrowing

- Moderately elevated debt burden with slow principal amortization

DETAILED CREDIT DISCUSSION

LARGE, AFFLUENT TAX BASE FAVORABLY LOCATED NEAR MADISON; SUSTAINED ENROLLMENT GROWTH

We expect the district's tax base to remain stable in the near term and continue to grow in the longer term due to the strength of the local economy and the availability of land for future development. The district is favorably located just west of the City of Madison and along the shores of Lake Mendota and serves the City of Middleton (Aa1), the Village of Cross Plains, the Town of Middleton, and portions of the City of Madison. The district's large $5.9 billion tax base has maintained its value in recent years following a period of robust growth. The district benefits from its location near Madison, which is the state capital and home to the University of Wisconsin at Madison, affording residents ample employment opportunities.

Additionally, the City of Middleton is home to several companies, including Spectrum Brands, a consumer products supplier which employs 560, and the headquarters of American Girl (566 employees). The City of Middleton is a minor regional economic center, with over 18,000 jobs within the city, but only about 9,600 working residents. Officials note that substantial new development is underway within the district. Notable examples include a 370 acre UW-Madison research park that could host 8,000 new employees when fully developed and an 1,100 acre mixed use commercial and residential community with space for nearly 4,000 homes. Reflecting the strength of the local economy, the unemployment rate in Dane County (Aa1 negative) was 4.3% in January 2014, below both the state and national rates of 6.7% and 7.0%, respectively, for the same time period. The district's income indices are strong, with 2006 to 2010 median family income equal to 157% of the nation.

The district's population has increased materially over the last three decades, most recently growing by 27.7% between the 2000 and 2010 censuses. Reflecting the growth in resident population, enrollment has continued to increase. Fiscal 2014 enrollment totaled 6,537, reflecting a five-year average annual rate of growth of 2.6%. Officials expect comparable growth going forward. Due to strong demand, management annually caps open enrollees into the district based on available capacity. Enrollment growth tends to benefit Wisconsin school districts as their revenues are based on a per pupil formula; however, sustained enrollment growth can also bring with it substantial new capital demands. Favorably, this district has strong community support for projects to accommodate its enrollment growth. In November 2012, residents passed with over 60% support both a $60 million bond referendum to increase school capacity and an operating referendum that will generate an additional $797,000 annually with no sunset date.

SOUND FINANCIAL OPERATIONS WITH CONSECUTIVE YEARS OF OPERATING SURPLUSES

We expect the district's financial profile to remain sound due to management's conservative budgeting practices that have led to the presence of healthy reserves. The district has a formal policy to maintain between 15% and 25% of its General Fund budget in reserve, and it continues to remain at the upper end of this targeted range. The district closed the last six fiscal years with operating surpluses, growing its General Fund balance from $8.2 million, or 14.4% of revenues, in fiscal 2007 to $17.0 million, or 25.3% of revenues, in fiscal 2013. In fiscal 2013, a strong $1.8 million surplus was driven by positive expenditure variances, largely in the areas of salaries, benefits and utilities. Given its healthy General Fund reserve levels, in fiscal 2014, the district budgeted for a $1.2 million draw on fund balance to finance an elementary school addition. Year-to-date estimates indicate that positive budgetary variances will reduce that draw down to $700,000 to $800,000 by the end of the fiscal year. Going forward, management is committed to maintaining General Fund reserves at the high end of its policy range.

The district is highly reliant on property taxes, which totalled 83% of operating revenues in fiscal 2013. Due to the infrequent receipt of property taxes and, to a lesser extent, state aid, the district has historically cash flow borrowed. Cash flow borrowing in each of fiscals 2013 and 2014 totaled $4.0 million, down from $7.6 million in fiscal 2008. Net of outstanding cash flow notes, the district had a somewhat narrow net cash position of $6.1 million, or 9.1% of revenues, in fiscal 2013. While cash flow borrowing allows the district to maintain adequate cash flow throughout the year despite infrequent receipt of revenues, the practice exposes the district to a degree of market access risk. However, we believe that this risk continues to be well managed.

MODERATELY ABOVE AVERAGE DEBT; MODESTLY SIZED UNFUNDED POST-RETIREMENT LIABILITIES

We expect the district's debt profile to remain manageable due to expected tax base growth and limited plans for additional debt in the near term. At 1.5% and 3.7% of full value, the district's direct and overall debt burdens are somewhat elevated compared to state and national medians. Principal amortization is below average with 48.2% of all debt retired within 10 years. While amortization is relatively slow, all debt is retired within 20 years and repayment is well within the useful life of the assets financed. Management reports no borrowing plans in the near time other than possible refundings for interest costs savings. All of the district's debt is fixed rate and the district is not a party to any interest rate swap agreements.

Costs associated with the district's exposure to the state multi-employer pension plan, the Wisconsin Retirement System (WRS), are expected to remain manageable. The district's contribution in fiscal 2013 of $5.0 million, inclusive of the employer and employee contributions, was a manageable 7.0% of operating revenues. The three year (2010 to 2012) average of Moody's adjusted net pension liability (ANPL) for the district is $49.7 million, or a low 0.39 times operating revenues and 0.49% of full value. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to 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.

The district also offers a defined contribution other post employment benefit (OPEB) and a supplemental pension plan, which provides a $30,000 stipend to qualifying employees upon retirement. Annual costs and/or unfunded liabilities associated with these plans are modest.

WHAT COULD CHANGE THE RATING-DOWN:

-Significant erosion of the district's tax base and demographic profile

-Deterioration in General Fund balance and/or liquidity

-Emergence of financial pressures from unexpected changes in enrollment

KEY STATISTICS

2013 Full Value: $5.9 billion

Full value per capita: $157,106

2006-2010 Median Family Income as a % of the US: 157%

Operating Fund Balance as a % of Revenues: 23.4%

Five-Year Dollar Change in Fund Balance as % of Revenues: 10.1%

Cash Balance as a % of Revenues: 8.5%

Five-Year Dollar Change in Cash Balance as % of Revenues: 8.1%

Institutional Framework: A

Operating History (Five-Year Average of Operating Revenues/Operating Expenditures): 1.02x

Net Direct Debt/Full Value: 1.5%

Net Direct Debt/Operating Revenues: 1.25x

Three-Year Average of Moody's ANPL/Full Value: 0.49%

Three-Year Average of Moody's ANPL/Operating Revenues: 0.39x

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.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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