S&P Global
Ratings

RatingsDirect®

Summary:

Sun Prairie Area School District, Wisconsin; General Obligation

Primary Credit Analyst:
Joseph Vodziak, Chicago + 1 312 233 7094; joseph.vodziak@spglobal.com

Secondary Contact:
Andrew J Truckenmiller, Chicago + 1 (312) 233 7032; andrew.truckenmiller@spglobal.com

Table Of Contents

Summary:

Sun Prairie Area School District, Wisconsin; General Obligation

Credit Profile		
US$86.5 mil GO rfdg bnds dtd 08/29/2019 due 03/01/2039		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Sun Prairie Area School District, Wis.' general obligation (GO) refunding bonds. The outlook is stable.

The district's unlimited-tax GO pledge secures the bonds. Bond proceeds will be used to refund the district's bond anticipation notes, which provided interim financing for the first portion of referendum-approved projects. The approved projects include: constructing a new high school and improvements to other district facilities.

Credit overview

Sun Prairie Area School District has benefited from the very strong growth of the Madison metropolitan statistical area (MSA) over the past few years. The growth has presented some capacity issues for the district, which it has combated with capital investments that have led to elevated debt. Despite this, the district has shown no problems managing the carrying costs. The district finished fiscal years 2017 and 2018 with strong surpluses, reflecting its efforts to conserve cost, budget conservatively, and increase revenue from the increasing enrollment. The bonds are the first portion of a voter-approved $164 million referendum for additional debt that will be issued across multiple series of bonds over the next five years to assist with the expected enrollment growth.

The rating reflects our view of the district's:

- Access to the broad and diverse Madison MSA;
- Very strong market value per capita and increasing market value trend;
- Increasing enrollment;
- Strong to good incomes; and
- Good financial management practices.

Offsetting these strengths are the district's high overall net debt per capita and moderately high debt to market value.

Economy

Sun Prairie Area School District School serves an estimated population of 48,521. In our opinion, median household effective buying income (EBI) is strong at 118% of the national level, but per capita EBI is good at 104%. Equalized value (including tax increment districts) totaled $5.1 billion in 2019, which we consider extremely strong at $105,334 per capita. Equalized value (excluding tax increment districts) grew by 18.2% since 2017 to $4.9 billion in 2019. The 10 largest taxpayers make up an estimated 5.4% of equalized value (excluding tax increment districts), which we consider very diverse.

The district is located in south-central Wisconsin's Dane and Columbia counties and serves students in the cities of Sun Prairie and Madison and several area towns and villages. Residents have access to diverse employment opportunities in the Madison MSA. Major employers in the district include American Family Mutual Insurance (3,999 employees), QBE Investments (1,500), and the district itself (1,179). The Madison regional economy includes very large stable employers such as the University of Wisconsin – Madison (21,500+ employees) and the state of Wisconsin (16,000+).

Finances

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 an increase or decrease, respectively, in revenue. In fiscal 2018, approximately 55% of general fund revenue came from state sources and 39% came from local sources. Enrollment totaled 8,534 students in 2019. It increased in each year from 2015 to 2019. The district uses two enrollment projection models, both of which forecast strong enrollment growth to continue, and the enrollment growth should lead to steady revenue growth.

The district's available fund balance of $12.9 million is strong in our view, at 13.1% of general fund expenditures at fiscal year-end (June 30) 2018. The district reported a surplus operating result of 3.1% of expenditures in 2018.

The district has finished each of the past two years with operating surpluses and has increased its reserves even with portions of the surpluses being transferred to its capital fund to help reduce future borrowing. Management projects another moderate general fund surplus in 2019 and is looking to continue increasing reserves in 2020.

Management

We consider the district's management practices good under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The district's management policies include the following:

- Three-to-four years of historical data, outside data sources, and mostly line-item estimates to develop the budget;
- The budget can be amended as necessary throughout the year and the board receives detailed monthly budget-to-actual reports;
- The district maintains an annually updated 10-year capital improvement plan, which identifies project costs. It has started setting a portion of its reserves for future capital projects.
- Use of two different multiyear financial forecasts;
- An investment policy that requires compliance with state investment laws; and management reports investment holdings to the board monthly;

- No debt management policy; and
- A formal general fund reserve policy equal to 10% of expenditures.

Debt

Following the issuance of the GO bonds, we consider overall net debt to be moderately high as a percentage of market value, at 8.2%, and high on a per capita basis at $8,657. With 44% of the district's direct debt scheduled to be retired within 10 years, amortization is slightly slower than average. Debt service carrying charges were 15.4% of total governmental fund expenditures excluding capital outlay in fiscal 2018, which we consider elevated.

The district received voter approval on a $164 million referendum request, which is expected to fund a number of capital projects over the next five years. We believe equalized value growth should help mitigate the taxpayer burden of additional debt service levies. However, we would have a negative view if equalized value growth slows, causing a substantially higher debt burden for taxpayers.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of $3.6 million toward its pension obligations in fiscal 2018, or 2.0% of total governmental expenditures.

The district participates in the Wisconsin Retirement System, a cost-sharing, multiple-employer pension plan. In 2017, the plan was 102.9% funded with a $10.5 million net pension asset. The district pays the full contractually required contribution each year, which was $3.5 million in 2018. It also provides OPEB and supplemental pension benefits to its employees through a defined contribution plan, which it funds on a pay-as-you-go basis. In 2017, its pay-as-you-go costs were $1.0 million. As of 2017, its net OPEB liability was $15.9 million.

Outlook

The stable outlook reflects our opinion that enrollment growth and economic growth will likely continue, which will help maintain funding stability. We also expect that the district's strong available reserves, good financial policies, and participation in the broad and diverse economy of the Madison MSA will provide stability. We do not expect to change the rating within our two-year outlook.

Downside scenario

We could lower the rating if available reserves declined and were sustained below a level we consider strong, or if tax base growth does not keep up with anticipated new debt issuances, substantially increasing the debt burden.

Upside scenario

We expect the district's debt burden to remain high, given the district's capital needs, but if the district can reduce its debt burden to levels commensurate with those of higher-rated peers and demonstrate at least stable financial performance despite the ongoing enrollment growth, we could raise the rating.