

MOODY'S

RATINGS

Rating Action: Moody's Ratings downgrades Monona Grove School District, WI to A1

19 Nov 2024

New York, November 19, 2024 -- Moody's Ratings (Moody's) has downgraded Monona Grove School District, WI's issuer and outstanding general obligation unlimited tax (GOULT) ratings to A1 from Aa2. As of fiscal year-end 2023 (June 30th) the district had roughly \$81.8 million of debt outstanding. This action concludes a review for possible downgrade initiated on October 1st, 2024 based on changing credit metrics for the district.

The downgrade is driven by significant operational imbalance and deteriorating reserves. The imbalance was caused by a lack of financial controls for expenses, resulting in large operating deficits in fiscal 2022 and 2023 as well as weak unaudited results for fiscal 2024. The district will begin to maintain narrow, but satisfactory reserves in fiscal 2025 as a direct result of issuing privately placed worked cash notes (unrated). The district has additionally made budgetary cuts that will ensure balanced operations beyond fiscal 2025.

RATINGS RATIONALE

The downgrade to A1 for the issuer rating reflects the district's rapid decline of operating reserves necessitating operating liquidity borrowing despite a favorable economy with solid enrollment growth. Governance was a key driver of this rating action based on lack of financial controls. The district's available fund balance and net cash ratios were 14% and 2% in fiscal 2023, respectively. Preliminary FY2024 results indicate available fund balance ratio will decrease to approximately 7% before returning to roughly 14% in FY2025, due to the issuance of a private placement working cash notes. While the working cash notes will help build general fund balance in the short-term, the increase in debt service will compete with general fund operations that will present a long-term challenge. The long-term liabilities ratio is modest at 222%, but leverage will increase due to the issuance of the working cash notes. The district's financial challenges are balanced against its favorable location near Madison, contributing to a strong three-year rate of enrollment growth of around 2.3%.

The A1 GOULT rating is equivalent to the A1 issuer rating based on the district's full faith and credit pledge.

RATING OUTLOOK

We do not assign outlooks to local governments with this amount of debt outstanding

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- No longer needing to cash flow borrow, resulting in an increase in liquidity to around 15% of revenue
- Trend of operating surpluses, without the assistance of working cash bonds

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to balance operations leading to additional operating deficits
- Increase in the amount of cash flow borrowing
- Further debt issuances that would increase leverage to 350% or higher

LEGAL SECURITY

The district's GOULT debt is secured by a dedicated property tax levy, unlimited by rate and amount.

PROFILE

Monona Grove School District encompasses an area of approximately 32 square miles in Dane County and is situated adjacent to the City of Madison. The district provides comprehensive pre-kindergarten through twelfth grade education to around 3,700 students.

METHODOLOGY

The principal methodology used in these ratings was US K-12 Public School Districts published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425431>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moody.com/documents/PBC_1355824.

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