

RatingsDirect®

Summary:

Monona Grove School District, Wisconsin; General Obligation

Primary Credit Analyst:

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

Secondary Contact:

Rebecca Y Roman, Chicago (1) 708-219-0455; rebecca.roman@spglobal.com

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Credit Profile

US\$6.83 mil GO rfdg bnds dtd 04/01/2025 due 04/01/2045

<i>Long Term Rating</i>	A+/Negative	New
Monona Grove School District nt antic nts		
<i>Long Term Rating</i>	A/Negative	Downgraded
Monona Grove Sch Dist GO rfdg bnds		
<i>Long Term Rating</i>	A+/Negative	Downgraded
Monona Grove Sch Dist GO sch fac imp bnds		
<i>Long Term Rating</i>	A+/Negative	Downgraded
Monona Grove Sch Dist GO (AGI)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Downgraded

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings lowered its long-term and underlying ratings on Monona Grove School District (SD), Wis.' general obligation (GO) debt to 'A+' from 'AA-' and lowered its long-term rating on the district's note anticipation notes (NANs) that are subject to appropriation to 'A' from 'A+'.
- At the same time, S&P Global Ratings assigned its 'A+' long-term rating to the district's \$6.8 million GO refunding bonds, dated April 1, 2025.
- The outlook on all ratings is negative.
- The downgrade reflects the significant deterioration of the district's finances following unrealistic budgets and gaps in budgetary monitoring practices, which led to a material decline in the available general fund balance in fiscal 2024 and a projected operating deficit net of borrowing for fiscal 2025.
- The negative outlook reflects Monona Grove SD's historically weak budgetary practices and our view that, until the district demonstrates it can adhere to the newly implemented practices, the budget could remain pressured and potentially lead to mult notch rating implications.

Security

The GO refunding bonds are secured by the district's unlimited ad valorem property tax pledge. The long-term rating on the district's NANs, which had a five-year maturity, are rated under our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," criteria published Nov. 20, 2019. The rating on the NANs is one notch lower than the district's general creditworthiness, as reflected in the GO rating, to capture the appropriation risk.

The proceeds will refund a portion of the district's notes dated April 23, 2020, along with fully refunding the district's

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notes dated June 14, 2023, and April 3, 2024. S&P Global Ratings previously applied a short-term rating to the April 3, 2024, notes being refunded with this issuance.

Credit overview

Monona Grove SD's financial position deteriorated significantly because of very weak budget assumptions and monitoring practices. In our view, these issues created budgetary distress that led the district to issue \$7.0 million in long-term debt to cover. On July 1, 2024, a new superintendent and assistant superintendent started with the district, and quickly identified the gaps in the district's budget assumptions and monitoring practices. The fiscal 2024 (June 30) year-end results were significantly weaker than the new administration was anticipating because of expenditures not being appropriately recorded. The new officials also discovered that the fiscal 2025 budget had a significantly larger deficit than was portrayed in the formally adopted budget. These officials took action to close the deficit but fiscal 2025 is still likely to finish with another deficit net of the long-term debt proceeds that were used to help close the budget gap. Management indicates that the district is overstaffed, and reductions are expected in fiscal 2026 that, based on the financial forecasts, will allow the district to pay off its long-term borrowing and add to reserves. Management also indicates that, in preparing the fiscal 2026 budget, it will be looking to make additional cuts to help bolster the operating margin and rebuild reserves.

We base the current rating on our view of this new management team identifying weaknesses in budgetary practices, reducing the fiscal 2025 budget gap to \$2.0 million from about \$4.0 million, implementing long-term financial planning and more detailed budgetary reporting that is shared monthly with the board, and developing a framework for assessing capital needs. We believe these tools can provide meaningful improvements to Monona Grove SD's budgetary practices. Given the recent budgetary mismanagement, our view of the district's financial management framework will remain impaired until a Monona Grove SD establishes a track record of using these new practices.

The rating reflects our opinion of Monona Grove SD's:

- Diverse regional economy benefiting from the City of Madison, which is the epicenter of growth throughout Dane County. Real gross county product (GCP) has exceeded the nation's economic growth rate and per-capita gross product is higher than that of the U.S.. The district's incomes align with those throughout the county. We expect its location will remain a source of economic stability.
- The management framework is a limiting credit factor in our view, as the district's budgetary practices and monitoring have created what we consider financial distress. The two new officials that joined the district in July of 2024 have brought with them several new practices, tools, and policies that we believe could help the district recover from its previous financial management lapses.
- The financial profile has deteriorated materially, with deficit operating results since fiscal 2022. We understand that actions were taken to reduce the budget gap in fiscal 2025 and with the use of bond proceeds, available reserves will be stronger at fiscal year-end 2025. There are, in our view, realistic plans in place to restore balance in fiscal 2026.
- Elevated direct debt on a per-capita basis, with \$83.5 million of direct debt outstanding. With principal payments on the new bonds occurring between 2035 and 2045, debt and liability costs will remain manageable, and the total debt is still amortized relatively quickly. The well-funded pensions are a large supporting factor in our view that the debt and liabilities will remain manageable with no additional debt plans.
- For more on our institutional framework assessment for Wisconsin Municipalities, see "Institutional Framework

Assessment: Wisconsin Local Governments," published Sept. 10, 2024.

Environmental, social, and governance

The district's past budget practices, which led to its material financial deterioration, reflect what we consider weaker risk management, culture, and oversight factors relative to those of peers. However, the new management's proactive response to restore budgetary balance, including use of a detailed financial forecast for the next five years, acquiring debt to maintain positive reserves for the near term, and identifying significant budget cuts for the next budget, could help stabilize the rating at the lower rating level. Environmental and social factors are neutral in our credit analysis.

Outlook

The negative outlook reflects the one-in-three chance we could lower the rating further, potentially by multiple notches, if Monona Grove SD's budgetary mismanagement continues and creates what we would consider to be a structural budgetary imbalance.

Downside scenario

We could lower the rating if budgetary difficulties persist through either a lack of adherence to the new practices or other external factors.

Upside scenario

We could revise the outlook to stable if the district demonstrates effective use of these recently implemented new practices and policies and develops sustainable structural budgetary balance, leading to improved available reserves.

Credit Opinion

Financial performance, reserves, and liquidity

In our previous discussions with the district in March of 2024, management indicated that thanks to a recently approved recurring operating levy referendum the fiscal 2024 budget would be balanced. In July 2024, a new superintendent and assistant superintendent started with district, and they informed us that they were led to believe there would be a minor deficit in fiscal 2024. However, after reviewing the accounting records, they discovered the district's financial position was much worse. This lack of transparency stemmed from weaknesses in the district's budgetary monitoring practices. The new managers identified similar gaps in the adopted fiscal 2025 budget, which resulted in the district needing to use long-term debt to cover and managed future cash flow needs. This supports our view that there were also weaknesses in the budgetary assumptions the district uses. We had previously been informed that the deficits in fiscal years 2022 and 2023 were partially attributable to one-time spending and minor budgetary variances. However, we now believe similar budgetary mismanagement also played a role in those deficits. Our financial performance assessment reflects an additional deficit expected at fiscal year-end 2025, after netting out the one-time revenue from the \$7.0 million long-term borrowing.

We understand that the new officials have found the district to be overstaffed and that management to reduce staff in the fiscal 2026 budget. At present, management has identified 9.5 full-time equivalent teacher positions that can be eliminated in fiscal 2026. With these reductions, Monona Grove SD's financial forecast is projecting a \$874,000 surplus

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for fiscal 2026. However, the district has not yet begun formally building a budget for fiscal 2026. Officials believe there are too many part-time and special staff positions and cutting these could realize additional savings. The current officials state they will consider additional cuts as they develop the fiscal 2026 budget to further improve performance and rebuild reserves faster. With these staff cuts and review of the revenue assumptions used in the forecast model, we believe the 2026 projections are realistic.

Including the \$7.0 million in long-term borrowing proceeds, we expect that available reserves at fiscal year-end 2025 will be at least \$6.0 million or slightly more than 10% of general fund revenue when excluding the debt proceeds from the denominator in this calculation. With improvements to Monona Grove SD's budgetary monitoring tools, we believe that there is a reasonable probability that fiscal 2025 will finish in line our expectations.

The district's operating revenue mainly comes from local property taxes (43.9% in fiscal 2024) and state aid (43.5%). The amount of revenue a school district can raise from state aid and property taxes is restricted under the state per-pupil revenue limit, which is determined by the average of the district's enrollments in the previous three years. While year-to-year fluctuations in enrollment might not significantly affect annual revenues given that the revenue limit is based on a three-year rolling average, over time ongoing enrollment gains or losses will lead to commensurate increases or declines in revenue received under the limit.

Enrollment has been trending positively in recent years and with Monona Grove SD's proximity to the city of Madison, we expect enrollment will remain at least stable, indicating the district's revenue limit will also remain stable. Monona Grove SD's revenue limit recently received a recurring increase through voter approval and changes to state funding. For fiscal 2025, Wisconsin permitted a \$325 per-pupil revenue limit increase for all districts, which is the largest per-pupil increase since the revenue limit had been in place.

Management

With budgetary mismanagement leading to financial distress for the district, we have qualitatively weakened our assessment of Monona Grove SD's financial management framework. At the same time, we understand that the current officials have made several revisions and implemented additional policies and practices that, if followed, we believe could help improve finances.

Monona Grove SD had material weaknesses in its budgetary practices that we would consider unrealistic with no effective monitoring. Shortly after the start of fiscal 2025, the district began using more comprehensive monitoring tools. We understand that the district's finances have become of much greater concern and are discussed more thoroughly at the monthly board meetings. The current administration has also implemented a long-term financial plan that we believe will be updated regularly with much more realistic assumptions. The district also conducted a facility study in 2024, and the current administration has developed a framework for how the district will begin planning for capital needs. Lastly, Monona Grove SD has formal investment and debt policies that quantitatively adhere to the statutory limits. It also has a formal reserves policy that calls for 15%-25% of budgeted expenditures to be maintained, which it has fallen out of compliance with and is likely to remain out of compliance with into fiscal 2026. The district is also taking actions to proactively manage and mitigate cyber security risks.

Economy

The district is in Dane County and a majority of its population is in Monona, which is adjacent to the city of Madison. Madison is the state capital, has a significant university presence, as well as a robust assortment of finance, insurance, information, and other professional service employment opportunities. With GCP per capita and incomes being stronger than the nation we see the economy as a key strength in the credit profile.

We understand that the tax base is a mostly built-out residential community. However, with its location we expect demand for homes to remain strong and help support appreciation and redevelopment of existing properties. With this, we expect coinciding stability in both population and enrollment trends.

Debt and liabilities

Including the \$7.0 million privately placed borrowing that the district used to help balance the fiscal 2025 budget and including the net effects of the refunding bonds, Monona Grove SD's net direct debt totals \$83.5 million. Due to the timing of taxes from the state and county, the district has routinely used short-term cash flow borrowings of which it has an additional \$12.0 million in short-term borrowing capacity. The refunding bonds are backloaded with principal payments falling between 2035 and 2045. Before this refunding the district paid off its debt quickly. We believe the recent financial distress, combined with some of the forthcoming cuts identified by officials, has also led to a focus on saving taxpayers' money in the near term. Even with this refunding issuance having a longer maturity, the district maintains slightly faster-than-average amortization. With no definitive plans to request voter approval for future debt issuance for capital improvements, we anticipate debt and liability costs will remain manageable relative to budget and the tax base.

The privately placed long-term borrowing and cash flow notes do not have any unusual events of default or remedies, so we do not view them to be a contingent liquidity risk.

The district participates in the Wisconsin Retirement System (WRS) pension plan, which we considered one of the strongest pension plans in the country, in addition to a supplemental pension plan for eligible administrators and teachers. We note that while it does not pre-fund its supplemental pension plan, the district has control over the benefit levels of this plan. If necessary, Monona Grove SD could reduce or eliminate benefits, which would in turn reduce its liabilities. The district also operates a single-employer retiree benefit plan that provides postemployment health and life insurance to eligible employees and their dependents.

The district's plans are as follows:

- WRS: 98.8% funded (as of Dec. 31, 2023) using a 6.8% discount rate, with a district proportionate net pension liability of \$2.2 million;
- Supplemental pension plan, funded on a pay-as-you-go basis, with a \$6.0 million liability (as of June 30, 2024) using a 4.5% discount rate; and
- Single-employer other postemployment benefits (OPEB) plan to its employees, funded on a pay-as-you-go basis, with a combined OPEB liability of \$5.8 million (as of June 30, 2024).

Overall, we consider the district's affordable pension and OPEB costs and ability to keep up with employer contributions as key credit strengths. (For more details about the pension, plan see "Pension Spotlight: Risk Sharing

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Plans Help Manage Budgetary Stress For Five U.S. States," published Oct. 3, 2024, on RatingsDirect.)

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Table 2

Monona Grove School District, Wisconsin--key credit metrics				
	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	128	--	--	128
County PCPI % of U.S.	112	--	--	112
Market value (\$000s)	3,958,302	3,598,942	3,168,186	2,845,107
Market value per capita (\$)	201,923	183,591	161,617	143,244
Top 10 taxpayers % of taxable value	7.4	--	7.4	7.0
County unemployment rate (%)	2.3	2.3	2.3	2.1
Local median household EBI % of U.S.	123	--	123	126
Local per capita EBI % of U.S.	116	--	116	124
Local population	19,603	--	19,603	19,862
Financial performance				
Operating fund revenues (\$000s)	--	59,280	53,510	50,835
Operating fund expenditures (\$000s)	--	64,205	57,199	51,737
Net transfers and other adjustments (\$000s)	--	513	783	--
Operating result (\$000s)	--	(4,412)	(2,906)	(902)
Operating result % of revenues	--	(7.4)	(5.4)	(1.8)
Operating result three-year average %	--	(4.9)	(1.4)	0.9
Enrollment	--	3,715	3,611	3,555
Reserves and liquidity				
Available reserves % of operating revenues	--	3.4	11.9	18.3
Available reserves (\$000s)	--	2,036	6,345	9,316
Debt and liabilities				
Debt service cost % of revenues	--	11.2	11.8	18.6
Net direct debt per capita (\$)	4,260	3,397	3,549	3,723
Net direct debt (\$000s)	83,502	66,592	69,566	73,955
Direct debt 10-year amortization (%)	61	76	--	--
Pension and OPEB cost % of revenues	--	4.0	4.0	4.0
NPLs per capita (\$)	--	421	709	337

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Table 2

Monona Grove School District, Wisconsin--key credit metrics (cont.)

	Most recent	2024	2023	2022
Combined NPLs (\$000s)	--	8,253	13,898	6,686

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

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