S&P Global Ratings

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Summary:

Sun Prairie Area School District, Wisconsin; General Obligation

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Credit Profile		
US$40.0 mil GO rfdg bnds dtd 08/18/2020 due 03/01/2040		
Long Term Rating	AA/Stable	New
Sun Prairie Area Sch Dist GO qual sch const bnds		
Long Term Rating	AA/Stable	Affirmed
Sun Prairie Area Sch Dist GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
Sun Prairie Area Sch Dist ICR		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Sun Prairie Area School District, Wis.' $40 million general obligation (GO) refunding bonds, dated Aug. 18, 2020. At the same time, S&P Global Ratings affirmed its 'AA' rating on the district's GO bonds. The outlook is stable.

The district's unlimited-tax GO pledge secures the bonds. Bond proceeds will be used to refund the bond anticipation notes authorized by the district's board on July 13, 2020, which provide interim financing for the second installment of referendum-approved projects. The approved projects include the construction of a new high school and improvements to other district facilities.

Credit overview

Sun Prairie Area School District benefits from its location in the Madison, Wis., metropolitan statistical area (MSA), as demonstrated by its consistent tax base growth trends and numerous employment opportunities for district residents. While the district's debt burden is relatively high, its extremely strong and growing tax base is well-positioned to manage the additional tax levies supporting its debt obligations. The district has experienced a sustained trend of positive operations in recent years, building its reserves to very strong levels. While the influence of COVID-19 and the recession on the district has been fairly limited to date, the potential exists for reduced state aid in fiscal 2021, which could affect budgetary performance.

Although our rating outlook is generally for two years, we see some downside risk due to COVID-19 and the related recession during the next six months to 12 months.

The rating reflects our view of the district's:

- Extremely strong market value per capita, with an increasing market value trend;

- Overall positive trend in enrollment, a key component in school finance in Wisconsin; and
- Good financial management practices under our Financial Management Assessment (FMA).

Offsetting these strengths are the district's high overall net debt per capita and moderately high debt as a percentage of market value.

Environmental, social, and governance (ESG) factors

The rating incorporates our view of the health and safety risks posed by the COVID-19 pandemic, which we consider a social risk factor. Although the scope of economic and financial challenges posed by the pandemic remains unknown, we believe a prolonged disruption could weaken the district's local economy and potentially affect state and local revenues. However, the COVID-19 pandemic is not affecting the district more than other districts and is consistent with the sector standard. We also analyzed its environmental and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the district were to experience a trend of fiscal imbalances, leading to materially weaker reserves as a result of COVID-19 or its high debt burden, which may limit operational flexibility.

Upside scenario

While not anticipated, should the district experience a sustained trend of higher incomes, while maintaining or improving its current credit factors, a higher rating is possible.

Credit Opinion

Very strong suburban economy benefitting from access to the broad and diverse Madison MSA

The pre-kindergarten through 12th-grade school district is located in south-central Wisconsin's Dane and Columbia counties and serves students in the cities of Sun Prairie, Madison and several nearby towns and villages. Residents have access to diverse employment opportunities in Madison, which it borders, the Wisconsin state capital and home to the University of Wisconsin-Madison. Major employers in the district include American Family Mutual Insurance (4,427 employees), the district (1,244), and the city of Sun Prairie (677).

The district has experienced sizeable tax base growth in the past three years, posting average annual gains of 8.3% in equalized value (EV), reflecting both residential and commercial growth, which contribute to an extremely strong market value per capita, in our view. Median household effective buying income (EBI) has held steady at levels that we consider strong, and good on a per capita EBI basis when compared to other school districts nationally. With regard to COVID-19, specific employers and taxpayers within the district have not been significantly affected in terms of layoffs and closures, though this may change should the duration of the pandemic and related recession continue for an extended period.

Trend of positive operations, with surpluses the past four fiscal years, though uncertainty exists regarding fiscal 2021 because of potential state aid reductions due to COVID-19

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 2019, approximately 55% of the district's general fund revenue came from state sources and 40% came from local sources.

Prior to the 2019-2020 school year, the district experienced solid enrollment gains, with growth of 5% between fiscals 2016 and 2019. Enrollment declined in fiscal 2020 by 0.5% and totaled 8,488 students, though officials forecast a return to enrollment growth during the each of the next five years. In developing its enrollment forecasts, the district utilizes two separate enrollment projection models, both of which forecast strong enrollment growth over the next five years. With regard to open enrollment, the district has experienced net positive trends in recent years.

The district has posted general fund surpluses the past four fiscal years, reflecting a concerted effort by management to increase its available reserves, which have doubled from $7.8 million (8.3% of general fund expenditures) in fiscal 2016 to $16.3 million (15.3%) in audited fiscal 2019 (year-ended June 30), a level that we consider very strong. Contributing to the district's operating surplus of $3.7 million (3.5% of expenditures) in fiscal 2019 were positive reduced instructional costs because of teacher retirements and lower utility expenses. The district's financial statements are reported on an accrual basis of accounting.

For unaudited fiscal 2020, officials estimate a $3.2 million surplus, which was primarily driven by savings attributable to the COVID-19 pandemic leading to an all-virtual instruction model in March 2020. This generated significant reductions in transportation and energy costs than had been originally budgeted. For fiscal 2021, the district is still in the process of developing its fiscal 2021 budget. While the state of Wisconsin has not announced any intentions to cut state aid to school districts in fiscal 2021, this looms as a possibility given substantial drops in state revenue in recent months because of COVID-19. We understand the district will likely utilize reserves to cover any shortfalls that would arise from a state aid reduction. We note that the district expects to receive approximately $640,000 in fiscal 2021 pursuant to the CARES Act, legislation promulgated by the federal government to provide relief to entities in response to COVID-19.

Good management policies and practices under our Financial Management Assessment (FMA)

We consider the district's management practices good under our FMA 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.

The district's debt burden is moderately high-to-high, though a substantial portion of this amount comprises debt that is authorized for capital improvements pursuant to the 2019 referendum

We consider the district's overall net debt to be moderately high as a percentage of market value, at 8%, and high on a per capita basis at $8,914. 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 13.1% of total governmental fund expenditures excluding capital outlay in fiscal 2019, which we consider moderate.

In 2019, the district received voter approval on a $164 million referendum request, which authorized the initial debt installment for the project in July 2019 and this current borrowing. The district anticipates borrowing another $34 million of authorized debt for the project next year. We have examined this final borrowing installment and its impact on the district's debt profile, and while the district overall debt burden will increase, we anticipate that it will remain within the district's current profile of moderately high to high overall net debt. The district does not have any additional debt plans.

In recent years, the district has engaged in short-term borrowing because of the timing of the receipt of state aid and property taxes. In fiscal 2020, the district short-term borrowed $12 million and anticipates another $12 million borrowing of short-term debt in fiscal 2021.

The district's pensions are well-funded with low pension and other postemployment benefit carrying charges

- The school district's pension and other postemployment benefit (OPEB) costs are modest as a share of total spending and are not likely to accelerate significantly in the medium term, especially given the pension plan's strong funded status.
- The school district participates in the Wisconsin Retirement System (WRS), a multiple-employer, defined-benefit pension plan that has in recent years routinely been among the best-funded multiple-employer pension plans in the country.

Although the school district funds its OPEB on a pay-as-you-go basis, exposing it to potential cost acceleration, we expect that medium-term costs will remain only a small share of total spending and, therefore, not a significant budgetary pressure.

The school district participates in the following pension and OPEB plans:

- WRS: 96.5% funded (as of Dec. 31, 2018), with a school district proportionate share of the plan's net pension liability of $12.5 million.
- A single-employer, defined-benefit OPEB plan: 102% funded with a net OPEB liability of $13.3 million.

- A supplemental pension plan that provides an annual stipend of $3,200 for three years for certain teachers age 55 or older, which is funded a pay-as-you-go basis, and had a liability of $1.2 million.

The district's combined pension and OPEB contributions were 2.8% of governmental fund expenditures in fiscal 2019. Contributions to WRS are actuarially based, and the school district funds 100% of its required contribution each year. The plan's investment rate of return assumption was lowered to 7.0% from 7.2% in late 2018. While the revised return assumption exceeds our 6.5% guideline, exposure to market volatility is mitigated because the plan employs a shared risk model where investment performance fluctuations are offset by changes in active employee contributions and in adjustments in benefit payments. Because of these features, we expect contributions will remain relatively stable, and, given the plan's strong funded status and strong contribution practices, we expect contributions will remain affordable.

Related Research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Financial and Operating Statistics

	Characterization	Most recent	--Historical information--		
Economic indicators			**2019**	**2018**	**2017**
Population			49,527	49,527	48,521
Median household EBI % of U.S.	Strong			119	118
Per capita EBI % of U.S.	Good			105	104
MV per capita ($)	Extremely strong	111,866	103,195	94,193	89,318
Top 10 taxpayers as % of AV	Very diverse	8.80	7.50	5.90	6.40
Financial indicators					
Total adjusted available fund balance ($000)			16,306	12,920	9,657
Total adjusted available fund balance as % of operating expenditures	Very strong		15.32	13.10	10.09
Governmental funds cash as % of governmental fund expenditures			19.92	14.43	14.47
General fund operating result as % of general fund operating expenditures			3.52	3.14	2.41
FMA	Good				
Enrollment		8,488	8,534	8,417	8,231
Debt and long-term liabilities					
Overall net debt as % of MV	Moderately high	8.00	3.80	4.40	7.20
DS as % of governmental funds expenditures	Moderate		13.09	15.41	15.41
Required pension contribution ($000)			3,801	3,610	3,532
OPEB contribution ($000)					
Required pension plus OPEB contribution as % of governmental fund expenditures			2.81	1.96	2.84

EBI--Effective buying income. MV--Market value. AV--Assessed value. FMA--Financial Management Assessment. DS--Debt service. OPEB--Other postemployment benefits.