Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aa1 RATING TO MADISON METROPOLITAN SCHOOL DISTRICT'S (WI) $28.6 MILLION TAXABLE G.O. REFUNDING BONDS

Global Credit Research - 02 Mar 2010

Aa1/STABLE OUTLOOK APPLIES TO $71.8 MILLION OF POST-SALE GOULT DEBT

Primary & Secondary Education
WI

Moody's Rating

ISSUE	RATING
Taxable General Obligation Refunding Bonds	Aa1

Sale Amount	$28,600,000
Expected Sale Date	03/08/10
Rating Description	General Obligation

Opinion

NEW YORK, Mar 2, 2010 -- Moody's Investors Service has assigned a Aa1 rating to Madison Metropolitan School District's (WI) $28.60 million Taxable General Obligation Refunding Bonds. Concurrently, Moody's has affirmed the Aa1 rating and stable outlook on the district's outstanding general obligation debt, affecting $43.2 million. The bonds are secured by the district's general obligation unlimited tax pledge and proceeds will be used to refinance the district's unfunded portion of its actuarially-determined prior service liability that resulted after the merger of the Milwaukee Teachers Retirement Fund, the Wisconsin Retirement Fund and the State Teachers Retirement Fund into the Wisconsin Retirement System. The current issuance is expected to provide significant interest savings for the district. The district's Aa1 rating and stable outlook is based on the sizeable tax base that derives support from one of the state's and nation's most stable economies, improving financial operations that will continue to face budget challenges, and a modest level debt.

LARGE AND DIVERSE TAX BASE SUPPORTED BY ONE OF THE NATION'S MOST STABLE ECONOMIES

We anticipate that the district's substantial and diverse $23.6 billion tax base will remain relatively stable due to the breadth of the local employment base, residential and commercial property valuations that have maintained value as well as available of land for future development. The district serves the City of Madison (general obligation rated Aaa) along with all or portions of several surrounding communities. As the city annexes neighboring areas to foster development, the school district also enters into border agreements with the affected school districts, which has helped to provide growth in both taxable valuation and service area population. In recent years growth in the periphery has helped to offset declining enrollment in the older city core. Enrollment has averaged a 0.3% decline over the last five years, though officials anticipate the start of a 4-year old kindergarten as early as fiscal 2012 will turn this trend around.

New construction has slowed in line with the national economy, resulting in an essentially unchanged value from 2008 to 2009 compared to a historical trend of over 8% to 9% annual growth. Over the past five years, the district averaged a solid 5.4% annual growth in its tax base. Management reports that residential development in particular has slowed, indicating that growth will be more moderate over the medium term. Complementing the public sector's sizeable local presence, with the University of Wisconsin's main campus and the state capital, there is a large number of private concerns with many them focused in technology, software development, and bio-medical research. Of the district's ten largest employers, nine are either government entities or large health care providers. Despite current economic conditions, the Madison metropolitan area continues to exhibit one of the most stable economic environments in the country. Annual unemployment levels have fluctuated around 2% to 3% since 1992, due to the stable and increasingly diverse nature of the local economy. In recent months, the city's unemployment rate has doubled that of historical trends but remains notably lower than the state and nation at 5.2% as of November 2009.

IMPROVING FINANCIAL OPERATIONS; NEAR-TERM CHALLENGES MITIGATED BY PASSAGE OF LEVY OVERRIDE

We believe that the district's financial operations will continue to strengthen given the recent passage of a levy override and management's ongoing commitment to maintaining structural balance. In fiscals 2001 through 2006, the district's General Fund posted annual deficits, bringing reserves down to $20.3 million at the close of fiscal 2006 from $46.6 million recorded in fiscal 2000. Significant improvement in these shortfalls came in fiscal 2004 in which the district's shortfall was reduced to $2.7 million from $8.3 million in the prior year. Notably, in fiscal 2007 the district posted significant positive budget variances by closing the year with a $335,000 General Fund surplus indicating that the district successfully closed a $9.5 to $10.5 million budget gap. Fiscal 2008 marked another year of improvement due to lower than expected health insurance costs, staffing adjustments and a $6 million TIF closeout payment received by the district. At year end, the district had a $4.3 million surplus that increased reserves to $24.9 million. Year-end results for fiscal 2009 reflect a significant surplus of $10.4 million, bringing reserves to $35.3 million, or an adequate 12.0% of revenues. The surplus was a result of several expenditure control measures and contingency planning. Favorably, in fiscals 2010, 2011 and 2012 the district will benefit from an operating levy override (of $5 million, $4 million, $4 million, respectively) that was passed by 70% of voters in November 2008. Management reports that the fiscal 2010 budget is balanced and revenues and expenditures year-to-date are tracking the budget. Due to a 15% reduction of state aid in fiscal 2010, the district is increasing its property tax levy by $6 million to make up a portion of the lost revenues; including the levy override, the total levy increase will be $11 million. During this fiscal year the district will also undergo a full scale organizational review to seek out efficiencies that could result in annual savings. While the district does not maintain a formal fund balance policy, management is targeting $30 million, or 10% of operations, which it should exceed at the close of fiscal 2009.

Although the district's recent trends demonstrate marked improvement due to management's effort to maintain expenditures in line with revenues, it is expected that the district's financial operations will continue to face budgetary challenges due to state-imposed per-pupil revenue limits. Going into fiscal 2011 the district is looking to avoid a $28.6 million increase in its property tax levy through various non-classroom budget adjustments. Management is in the process of developing an outline of possible adjustments and has implemented a timeline for collecting public input. Unlike most Wisconsin school districts, the majority (72.1%) of revenues is derived from property taxes, with state the second largest source (21.8%). Management reports the district's other post-employment benefits (OPEB) liability is limited to its implicit rate subsidy of $27.2 million. The district is currently financing OPEB related costs on a pay-go basis.

MANAGEABLE DEBT LEVELS; NO NEAR TERM CAPITAL BORROWING NEEDS

The district's post-sale debt profile will remain favorable as the current debt burden is low and there is minimal near term borrowing plans. The district's overall debt burden is below average at 2.0%, while direct debt is very modest for a school system of this size at 0.3% of valuation. Contributing to this low debt burden is the fact that the district spends $8 million to $10 million annually out-of-pocket on capital and maintenance needs. Favorably, annual debt service comprised only 4.2% of core expenditures in fiscal 2009, though principal amortization is comparatively slow among its state-wide peers, with 60.5% retired in ten years. Notably, the current issuance has slowed the district's amortization rate though this is not uncommon given that it is financing an unfunded prior service liability. The district plans to issue just under $4.0 million later this year for a variety of small projects and energy efficiencies but these bonds will be payable from the General Fund.

KEY STATISTICS:

2000 Census population: 217,677 (+5.6% since 1990)

2009 Full value: $23.6 billion

Estimated full value per capita: $108,298

1999 Per capita income as a % of state: 111.0

1999 Median family income as a % of state: 111.0

Debt burden: 2.0% (0.3% direct)

Payout of principal (10 years): 60.5%

FY2009 General Fund balance: $35.3 million (12.0% of General Fund revenues)

Post-sale outstanding general obligation debt: $71.8 million

The principal methodology used in rating the current issue was Moody's General Obligation Bonds Issued by U.S. Local Governments, published in October 2009 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action on the district was on October 6, 2009 when the district's GOULT rating of Aa1 with a stable outlook was affirmed.

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