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Summary:

Tomahawk School District, Wisconsin; General Obligation

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Credit Profile

Tomahawk Sch Dist GO

Long Term Rating

AA-/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' long-term rating on Tomahawk School District, Wis.' outstanding general obligation (GO) refunding bonds. The outlook is stable.

The rating reflects our view of the district's:

- Local economy based on the tourism and manufacturing sectors;
- Extremely strong per capita wealth levels;
- Very strong general fund balance; and
- Low overall net debt burden with limited additional capital needs.

Somewhat offsetting the above strengths, in our view, is the district's below-average income levels and declining enrollment trend.

An unlimited-tax GO pledge secures the bonds.

The district covers approximately 432 square miles in northern Wisconsin in Lincoln and Oneida counties. It serves a population of 9,900 in the City of Tomahawk and 10 surrounding towns. Most residents work within the district, in the tourism and manufacturing sectors. Lincoln and Oneida counties' 2013 unemployment rates, each 8.8% in 2013, were higher than the state's average (6.7%) and the nation's (7.4%). Incomes levels in the district are what we consider adequate, with median household effective buying income (EBI) at 86% and per capita EBI at 88% of the national average.

In our opinion, lake homes and forested properties help support the district's extremely strong tax base. The equalized value, excluding tax-increment districts, declined an average of 3.7% a year from 2011 to 2014 before increasing in 2015 by 1.6% to \$1.37 billion. Estimated market value (equalized value, including tax-increment districts) increased by 2.0% in 2015 to \$1.39 billion, or what we consider an extremely strong \$139,956 per capita.

A three-year moving enrollment average determines Wisconsin school district per-pupil revenue. Although annual student count fluctuations do not have a material effect on finances, continuing positive or negative enrollment could lead to an increase or decrease, respectively, in revenue. Student enrollment has decreased 13.2%, or 128 students, over the past five years to 1,275 students for 2014-2015 school year, reflecting declining birth rates. Management reports that the district experienced a net gain of about 18 students through the state's open enrollment program in

school year 2014-2015. Officials expect enrollment to decline further for the next couple of years before stabilizing.

The district maintains what we view as very strong general fund reserves. While it has budgeted for balanced results each year, it has historically had surpluses. Wisconsin reduced the per-pupil revenue limit 5.5% for fiscal 2012 and increased it \$50 per student in fiscal 2013. However, the district was able to offset revenue reductions through increased employee pension contributions and health care savings, as well as savings through staff attrition. Three consecutive years of surpluses, ranging from \$163,000 to \$558,000 in fiscal years 2012 through 2014, have brought the general fund available balance to \$6.9 million, or 48.0% of general fund expenditures, which we consider very strong.

For fiscal 2015, management has budgeted for the use of \$350,000 of general fund balance, due primarily to technology upgrades but also to rising salary and benefits and declining state aid driven by declining enrollment. Management expects that the district will outperform budget somewhat due to vacant positions. Preliminary budget expectations for fiscal 2016 indicate another use of fund balance of about \$500,000, due to expected revenue declines and operating expenditure increases. Should the projected drawdowns for fiscal years 2015 and 2016 occur, the fund balance would still be what we consider very strong at approximately 41% of operating expenditures. The district is levying at the state-mandated limit, but might hold a referendum in fiscal 2017 to exceed the state revenue cap to mitigate increased operating costs and maintain structural balance.

We consider the district's financial management practices "good" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of good indicates that practices exist in most areas, although not governance officials might nor formalize or regularly monitor all of them. Highlights include capital improvement modeling and monthly reporting of budget to actual results and investments to the board. The district has a fund balance policy to maintain a minimum unassigned general fund balance equal to 10% of expenditures plus taxes receivable.

We consider the district's overall net debt burden (including overlapping debt) low, at 1.2% of market value and \$1,714 per capita. Amortization is rapid, with 100% of direct debt retiring within 10 years. Carrying charges are low at 4.5% of total governmental expenditures. The district has no additional debt plans and reports it has few capital needs.

The district participates in the Wisconsin Retirement System, a state-administered pension plan. It has historically paid 100% of its annual required contribution, which amounted to \$496,000 in fiscal 2014. It offers other postemployment benefits (OPEB) through a defined benefit health plan to retirees based on the accumulation of sick leave. In fiscal 2014, the district contributed \$328,000 toward OPEB obligations. It accounts for these contributions as a committed balance in its general fund; if necessary, it could use the funds for cash-flow purposes. The district had \$3.09 million designated for OPEB to end fiscal 2014 compared with its unfunded accrued liability of \$3.5 million as of July 1, 2012.

Outlook

The stable outlook reflects our anticipation that the district will maintain very strong general fund reserves throughout the two-year outlook period. Should its rising operating costs and declining enrollment drive a structural budget imbalance, and reserves deteriorate to levels we no longer consider very strong, we could lower the rating. A higher rating would require material improvement in the district's income indicators, which we do not expect within the

two-year outlook period.

Related Criteria And Research

Related Criteria

USPF Criteria: GO Debt, Oct. 12, 2006

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