

CREDIT OPINION

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Fort Atkinson School District, WI

Update to credit analysis

Summary

[Fort Atkinson School District, WI](#) (Aa2) has a healthy credit profile that benefits from strong financial performance and a solid tax base. Leverage and fixed costs are modest. These positive credit factors help to balance the district's declining enrollment and limited revenue raising ability.

Credit strengths

- » Solid operating reserves
- » Modest leverage and fixed costs

Credit challenges

- » Declining enrollment trends that are expected to continue
- » Somewhat limited revenue raising ability under per pupil state revenue formula

Rating outlook

Moody's does not typically assign outlooks to issuers with this amount of debt.

Factors that could lead to an upgrade

- » Substantial growth in reserves
- » Sustained enrollment growth

Factors that could lead to a downgrade

- » Weakening of resident wealth and income
- » Narrowing of reserves
- » Continued decrease in enrollment

Key indicators

Exhibit 1

Fort Atkinson School District, WI

| | 2019 | 2020 | 2021 | 2022 | Aa Medians |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| Economy | | | | | |
| Resident income | 109.9% | 118.7% | N/A | N/A | 112.2% |
| Full value (\$000) | \$1,559,497 | \$1,662,383 | \$1,727,566 | \$1,852,176 | \$3,864,784 |
| Population | 18,235 | 18,454 | N/A | N/A | 31,619 |
| Full value per capita | \$85,522 | \$90,083 | N/A | N/A | \$115,171 |
| Enrollment | 2,843 | 2,768 | 2,652 | 2,591 | 4,288 |
| Enrollment trend | -0.7% | -0.3% | -1.9% | -3.0% | 0.1% |
| Financial performance | | | | | |
| Operating revenue (\$000) | \$40,262 | \$41,614 | \$43,697 | \$47,053 | \$71,385 |
| Available fund balance (\$000) | \$11,940 | \$12,797 | \$12,434 | \$14,185 | \$18,076 |
| Net cash (\$000) | \$10,475 | \$11,038 | \$10,633 | \$12,426 | \$21,642 |
| Available fund balance ratio | 29.7% | 30.8% | 28.5% | 30.1% | 26.8% |
| Net cash ratio | 26.0% | 26.5% | 24.3% | 26.4% | 31.5% |
| Leverage | | | | | |
| Debt (\$000) | \$5,390 | \$4,819 | \$5,249 | \$4,405 | \$51,433 |
| ANPL (\$000) | \$44,830 | \$60,193 | \$75,099 | \$70,700 | \$111,819 |
| OPEB (\$000) | \$8,965 | \$9,487 | \$9,714 | \$9,626 | \$10,587 |
| Long-term liabilities ratio | 147.0% | 179.0% | 206.1% | 180.1% | 317.0% |
| Implied debt service (\$000) | \$448 | \$393 | \$345 | \$368 | \$3,485 |
| Pension tread water (\$000) | \$1,455 | \$885 | \$624 | N/A | \$2,924 |
| OPEB contributions (\$000) | \$677 | \$943 | \$735 | \$979 | \$368 |
| Fixed-costs ratio | 6.4% | 5.3% | 3.9% | 4.2% | 11.5% |

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [K12 Median Report](#).

Sources: US Census Bureau, Fort Atkinson School District, WI's financial statements and Moody's Investors Service

Profile

Fort Atkinson School District is located in southeastern [Wisconsin](#) (Aa1 stable) in [Jefferson](#) (Aa2) and [Rock](#) (Aa1) Counties and provides kindergarten through twelfth grade education to about 2,400 students.

Detailed credit considerations

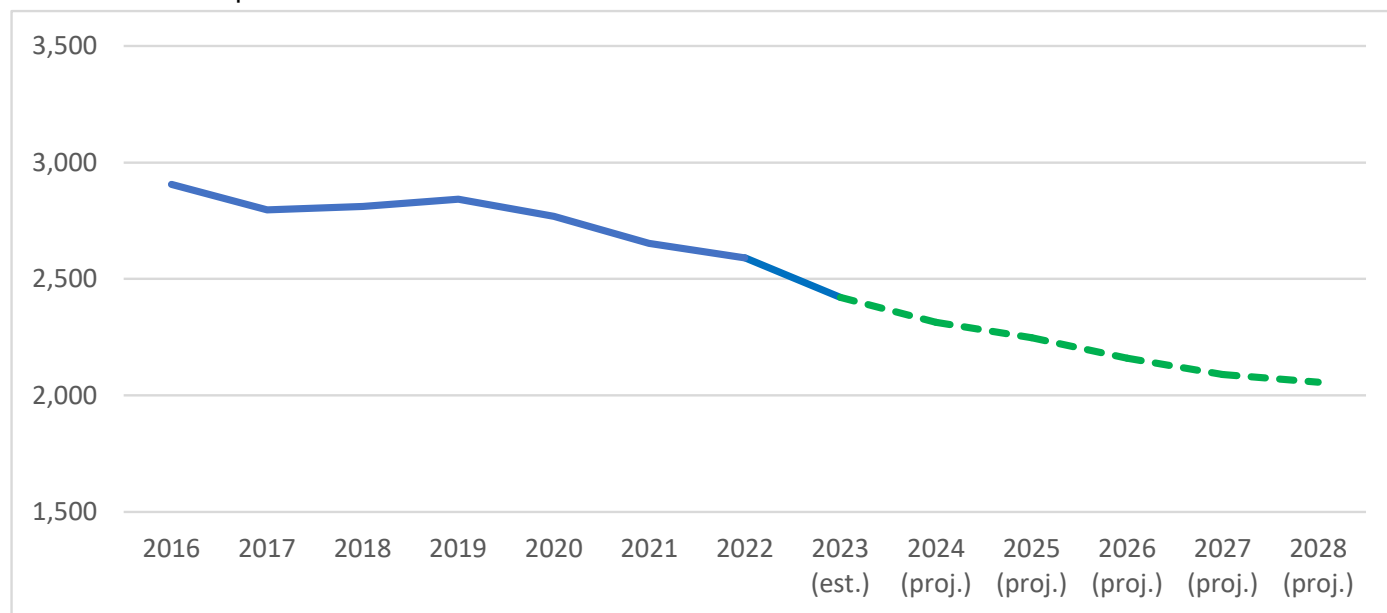
Economy: Above average tax base with declining enrollment

The district's above average tax base will remain a credit strength, while its declining enrollment is a credit weakness expected to continue through the next five years. The adjusted resident income and the full value per capita are both above medians for the rating category at 119% and \$115,000 respectively. The district's largest commercial taxpayer is Jones Dairy Farm and the largest employer is Fort Healthcare Special Clinic Hospital with 610 employees. The district's second largest taxpayer and employer is Nasco Farm Home Store with 600 employees, though tax base remains diverse. The district reports that residential development projects remain in the pipeline, particularly adjacent to the high school, including a new subdivision that will begin development in the next year. As of October 2022, Jefferson County's unemployment rate (2.5%) was in line with the state's rate (2.8%) and below the national rate (3.4%). The district's population of approximately 18,400 residents has remained steady to growing, increasing by about 3.9% between 2010-2020. Enrollment declines will remain a credit challenge. Like all Wisconsin school districts, Fort Atkinson School District operates under state imposed revenue limits which are indexed to enrollment trends. The district's enrollment has been declining for over a decade and will continue to do so because of the district's aging population.

Enrollment declined to under 2500 students in fiscal 2023, with a three-year CAGR of negative 3%. The district reports they gain about 30 resident students each year from neighboring districts, though this has no significant impact on the district's total enrollment trend.

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Exhibit 2

Enrollment declines expected to continue

Source: State Department of Education and district projections

Financial operations: healthy reserves despite expected deficit

The district has historically maintained satisfactory operating reserves (see Exhibit 3), providing a buffer against potential revenue pressure should enrollment declines persist. Fiscal 2022 (year-end June 30) ended with a general fund surplus of roughly \$1.6 million and an available fund balance of 30% of operating revenue. The district's multi-year budgeting practices demonstrate forward looking planning, as they prepare for a planned deficit of \$600,000 in fiscal 2023 for a net surplus of \$1 million over the course of the current biennium. Despite this planned draw, reserves should remain healthy at above 25% of operating revenue.

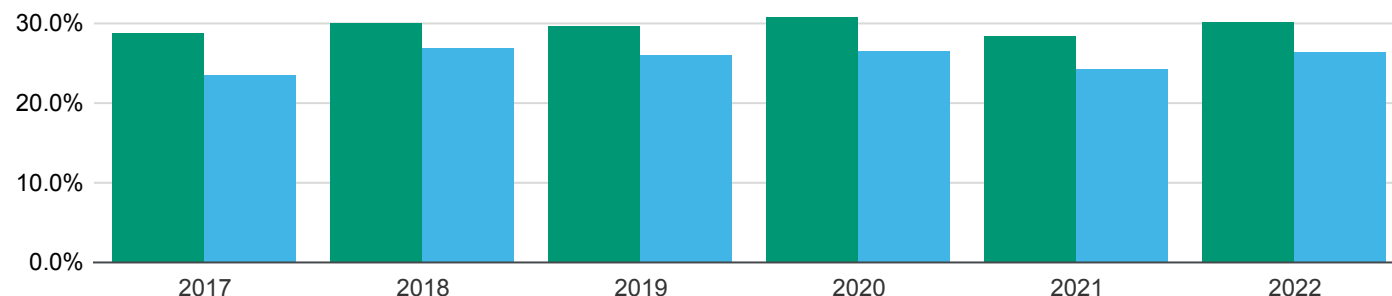
Fort Atkinson School District's ESSER III (American Rescue Plan Act) allocation was roughly \$2 million, which the district used in fiscal 2022 to offset learning loss and operational deficits by providing mental health services and additional learning support to students.

State aid is the district's largest revenue source at 47% of fiscal 2022 operating revenue, followed by property taxes at 42%. District voters approved an operating referendum in 2020 that has a non-recurring component which is set to expire June 30, 2023. The district went to voters again in November 2022 with a two part operating referendum that included a \$3 million recurring levy and a three year non-recurring levy that would have allowed the district to levy an additional \$4 million annually for the first two years and \$5 million in the third year. Voters rejected the November 2022 operating referendum and the district now plans to approach voters again for a similar request in April 2023.

Exhibit 3

Financial Trends

■ Fund Balance as a % of Revenues ■ Cash Balance as a % of Revenues



Source: Moody's Investors Service

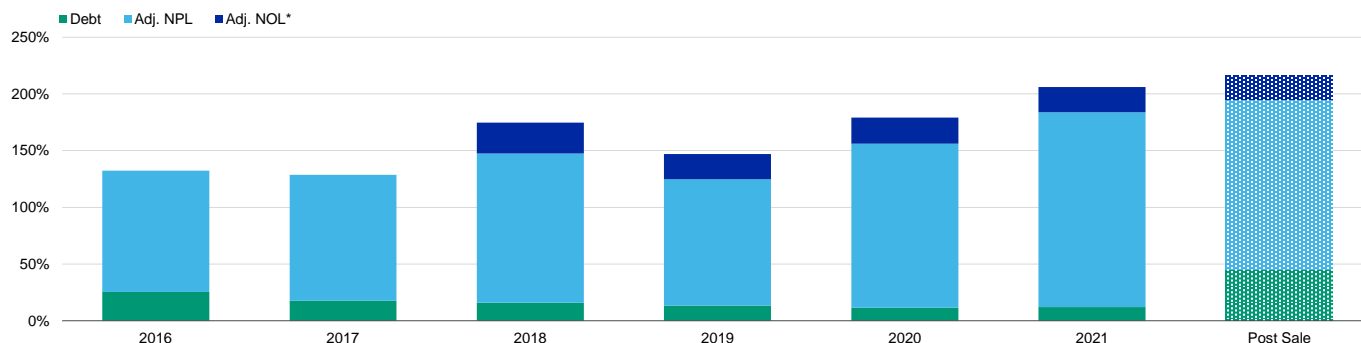
Liquidity

The district closed fiscal 2022 with a net cash position of \$12.4 million, or a satisfactory 26% of operating revenue.

Leverage: moderate leverage that is expected to grow

Total leverage and fixed costs are modest. The district's current long-term liabilities predominantly consist of its adjusted net pension liability (ANPL). Fort Atkinson School District is in the process of issuing \$16.9 million general obligation unlimited tax (GOULT) refunding bonds for district-wide capital projects. Following the sale, the district's long-term liabilities ratio will be 216% (See Exhibit 4).

Exhibit 4

Leverage consists primarily of pension liabilities

Source: Fort Atkinson School District, WI's financial statements and Moody's Investors Service

Legal security

The district's GO bonds are backed by the district's authorization to levy a dedicated property tax unlimited as to rate and amount.

Debt structure

All of the district's debt is fixed rate and long term. Amortization of existing debt is rapid with over 85% of principal set to be retired over the next ten years.

Debt-related derivatives

The district is not a party to any debt-related derivatives.

Pensions and OPEB

The district participates in the Wisconsin Retirement System (WRS), a statewide cost-sharing plan. Contributions are determined using a level contribution actuarial method in an effort to keep employer and employee contribution rates at a level percentage of payroll over time, and are set at 100% of the plan's funding requirement. As a result, WRS remains one of the best-funded public employee

retirement systems in the country, with the plan reporting a net pension asset in its most recent valuation. The district's ANPL is much higher than reported pension liabilities because the market interest rates we use to value pension liabilities are far lower than reported discount rates (see Exhibit 5).

Exhibit 5

Adjusted pension liabilities notably higher than reported pension liabilities because of Moody's adjustments

| \$ thousands | 2020 | 2021 | 2022 |
|---------------------------------------|-----------|-----------|------------|
| Net pension liability, reported basis | (\$4,116) | (\$7,927) | (\$10,207) |
| Discount rate | 7.00% | 7.00% | 6.80% |
| Net OPEB liability, reported basis | \$9,493 | \$9,952 | \$9,921 |
| Adj. net pension liability | \$60,193 | \$75,099 | \$70,700 |
| Discount rate | 3.22% | 2.52% | 2.83% |
| Adj. net OPEB liability | \$9,487 | \$9,714 | \$9,626 |

Sources: Fort Atkinson School District, WI's financial statements and Moody's Investors Service

Other post-employment benefits (OPEB) obligations do not pose a material credit risk. The OPEB liability reflects an implicit rate subsidy for retirees who pay to remain on the district's healthcare plan. The district's adjusted net OPEB liability, which is similar to the adjustments we make to pensions, was \$9.9 million in fiscal 2021, equivalent to 22% of operating revenue.

ESG considerations

Fort Atkinson School District's ESG Credit Impact Score of CIS-2 indicates that ESG considerations have a neutral-to-low impact on its credit rating, reflecting neutral to low exposure to environmental, social and governance risks.

Environmental

Fort Atkinson School District's E Issuer Profile Score is neutral-to-low (E-2), reflecting neutral-to-low exposure to all environmental risks categories, including physical climate risk, carbon transition, water management, natural capital and waste and pollution.

Social

Fort Atkinson School District's S Issuer Profile Score is neutral-to-low (S-2), reflecting neutral-to-low exposure to social risks in all categories including access to basic services, housing, health and safety, education, labor and income and demographics. The district's educational attainment metrics are in line with nation, as are unemployment metrics. The district's population is steady to modestly growing.

Governance

Fort Atkinson School District's G Issuer Profile Score is neutral-to-low (G-2). The district's transparency and disclosure is in line with peers, reflected in timely filing of audited financial statements and budgets. The district maintains a formal fund balance policy, which it currently exceeds.

Wisconsin school districts have an Institutional Framework score ¹ of A. The state controls the bulk of revenue through per-pupil revenue limits, which are calculated annually and are based on enrollment changes, an inflationary increment and the prior year's revenue limit. The difference between a district's revenue limit and its general state aid is the maximum amount the district can generate via its property tax levy. Districts can request voter authorization to exceed property tax levy limits on either a recurring or non-recurring basis.

Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare school district credits.

Exhibit 6

Fort Atkinson School District, WI

| | Measure | Weight | Score |
|---|---------|--------|------------|
| Economy | | | |
| Resident Income (MHI Adjusted for RPP / US MHI) | 118.7% | 10.0% | Aa |
| Full value per capita (full valuation of the tax base / population) | 114,909 | 10.0% | Aa |
| Enrollment trend (three-year CAGR in enrollment) | -3.0% | 10.0% | Baa |
| Financial performance | | | |
| Available fund balance ratio (available fund balance / operating revenue) | 30.1% | 20.0% | Aaa |
| Net cash ratio (net cash / operating revenue) | 26.4% | 10.0% | Aaa |
| Institutional framework | | | |
| Institutional Framework | A | 10.0% | A |
| Leverage | | | |
| Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue) | 180.1% | 20.0% | Aa |
| Fixed-costs ratio (adjusted fixed costs / operating revenue) | 4.2% | 10.0% | Aaa |
| Notching factors | | | |
| No notchings applied | | | |
| Scorecard-Indicated Outcome | | | Aa2 |
| Assigned Rating | | | Aa2 |

Sources: US Census Bureau, Fort Atkinson School District, WI's financial statements and Moody's Investors Service

Appendix

Exhibit 7

Key Indicators Glossary

| | Definition | Typical Source* |
|--------------------------------|--|---|
| Economy | | |
| Resident income | Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US | MHI: American Community Survey (US Census Bureau) RPP: US Bureau of Economic Analysis |
| Full value (\$000) | Estimated market value of taxable property accessible to the district | State repositories, district's audited financial reports, offering documents or continuing disclosure |
| Population | Population of school district | American Community Survey (US Census Bureau) |
| Full value per capita | Full value / population of school district | |
| Enrollment | Student enrollment of school district | State data publications |
| Enrollment trend | 3-year Compound Annual Growth Rate (CAGR) of Enrollment | State data publications; Moody's Investors Service |
| Financial performance | | |
| Operating revenue (\$000) | Total annual operating revenue in what we consider to be the district's operating funds | Audited financial statements |
| Available fund balance (\$000) | Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds | Audited financial statements |
| Net cash (\$000) | Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds | Audited financial statements |
| Available fund balance ratio | Available fund balance / Operating Revenue | Audited financial statements |
| Net cash ratio | Net Cash / Operating Revenue | Audited financial statements |
| Leverage | | |
| Debt (\$000) | District's direct gross debt outstanding | Audited financial statements; official statements |
| ANPL (\$000) | District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits | Audited financial statements; Moody's Investors Service |
| OPEB (\$000) | District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits | Audited financial statements; Moody's Investors Service |
| Long-term liabilities ratio | Debt, ANPL and OPEB liabilities as % of operating revenue | Audited financial statements, official statements; Moody's Investors Service |
| Implied debt service (\$000) | Annual cost to amortize district's long-term debt over 20 years with level payments | Audited financial statements; official statements; Moody's Investors Service |
| Pension tread water (\$000) | Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met | Audited financial statements; Moody's Investors Service |
| OPEB contributions (\$000s) | District's actual contribution in a given period, typically the fiscal year | Audited financial statements; official statements |
| Fixed-costs ratio | Implied debt service, pension tread water and OPEB contributions as % of operating revenue | Audited financial statements, official statements, pension system financial statements |

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Investors Service

Endnotes

- The institutional framework score categorically assesses whether a district has the legal ability to raise the bulk of its operating revenue at the local level or if the state determines the bulk of its operating revenue. Beyond the local versus state categorization, the strength of the institutional framework score is a measure of the district's flexibility in raising additional locally determined operating revenue. See [US K-12 Public School Districts Methodology](#) for more details.

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