

CREDIT OPINION

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New Issue

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Waupaca School District, WI

New Issue: Moody's assigns Aa3 to Waupaca School District WI's GO Refunding Bonds

Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 rating to Waupaca School District, WI's \$3.2 million General Obligation (GO) Refunding Bonds. Concurrently, Moody's maintains the Aa3 rating on the district's previously issued general obligation unlimited tax debt (GOULT). Post-sale the district will have \$12.2 million in GOULT debt outstanding.

The Aa3 rating reflects the district's moderately sized tax base in central Wisconsin (Aa2 positive); slightly below average resident income levels; healthy financial profile underpinned by sound reserve levels and prudent management; declining enrollment that negatively affects operating revenue capacity; modest debt burden and manageable pension liabilities.

Credit Strengths

- » Stable financial profile with healthy reserve levels and ample liquidity
- » Consistent under-levying relative to state imposed maximum
- » Low debt burden with no plans for additional borrowing

Credit Challenges

- » Below average socioeconomic indices
- » Declining enrollment that is expected to continue

Rating Outlook

Outlooks are typically not assigned to local government credits with this amount of debt.

Factors that Could Lead to an Upgrade

- » Significant growth of the tax base and/or improvement of socioeconomic indices
- » Further bolstering of operating reserves and liquidity

Factors that Could Lead to a Downgrade

- » Material tax base depreciation
- » Erosion of operating fund reserves and liquidity to levels no longer commensurate with similarly rated entities

- » Increases in debt levels

Key Indicators

Exhibit 2

Waupaca School District, WI	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 1,467,410	\$ 1,440,138	\$ 1,436,255	\$ 1,454,524	\$ 1,453,563
Full Value Per Capita	\$ 91,376	\$ 90,815	\$ 90,902	\$ 92,058	\$ 91,998
Median Family Income (% of US Median)	N/A	90.5%	90.5%	90.5%	90.5%
Finances					
Operating Revenue (\$000)	\$ 27,990	\$ 26,367	\$ 26,701	\$ 27,313	\$ 27,992
Fund Balance as a % of Revenues	28.3%	31.0%	29.5%	31.3%	31.2%
Cash Balance as a % of Revenues	18.7%	21.4%	21.1%	23.1%	22.8%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 22,735	\$ 20,400	\$ 18,395	\$ 15,545	\$ 12,525
Net Direct Debt // Operating Revenues (x)	0.8x	0.8x	0.7x	0.6x	0.4x
Net Direct Debt / Full Value (%)	1.5%	1.4%	1.3%	1.1%	0.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.4x	0.5x	0.6x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.7%	0.9%	1.1%	1.5%

Source: Audited Financial Statements

Recent Developments

Since our last report on March 1, 2013 the district has posted modest General Fund surpluses in fiscal years 2013 through 2015. The district's tax base has remained largely stable, declining by an average of 1% annually over the last five years.

Detailed Rating Considerations

Economy and Tax Base: Moderately sized tax base expected to remain stable

The district's moderately sized tax base will likely remain stable over the near term due to firming of residential values and some commercial investment. Located approximately 40 miles west of Appleton (Aa1), Waupaca School District spans approximately 160 square miles in portions of Portage, Waupaca (Aa2) and Waushara Counties. Valued at \$1.5 billion in 2015, tax base valuations have declined at an annual rate of 1.0% from 2010 to 2015, reflecting the impact of the broader economic downturn on real estate valuations. The district's largest taxpayer and employer, Waupaca Foundry Inc., produces iron castings for a variety of light, commercial, and agricultural vehicles. The foundry has been in operation since 1871, employs 1,600 local residents and accounts for 2.1% of the district's equalized valuation. Residential income indices track slightly below national levels, with median family income estimated at 90.5% of the national benchmark. At 3.6% in October 2015, the multi-county unemployment rate was in line with the state's figure and below the national rate of 4.8% for the same time period.

Financial Operations and Reserves: Healthy financial profile supported by ample liquidity and reserves

The district's financial profile is expected to remain stable due to healthy reserve levels and ample liquidity. The district has closed each of the last six years with a General Fund operating surplus. The district's positive operating history increased available General Fund reserves to \$8.5 million in 2015 from \$7.0 million in 2010. When including additional reserves held within the Debt Service Fund, available operating fund reserves increase to \$8.7 million and a healthy 31.2% of operating fund revenues. In fiscal 2016, the district budgeted for balanced operations. However, reserves may be reduced by approximately \$290,000 as the district will be using a commensurate amount for the current refunding. The district's fund balance policy calls for maintaining sufficient reserves to avoid the need to borrow annually for cash flow purposes, a target that the district has consistently achieved and expects to continue moving forward.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Like all Wisconsin school districts, Waupaca operates under state imposed revenue limits which are significantly indexed to enrollment trends. As of the 2016, district enrollment totaled 2,158. Due largely to an aging district population, enrollment has steadily declined. Over the last five years, district enrollment has decreased by an average annual rate of 1.1%. Favorably, the district has demonstrated its ability to continue to reduce expenditures as enrollment has declined. Cost reductions have been achieved through the closure of two elementary schools, benefit changes and personnel reductions. Management anticipates similar enrollment trends to continue over the near-term. Given the district's demonstrated ability of maintaining operational balance amid ongoing enrollment declines, we expect that in the event declines continue, the district will continue to adjust its expenses as needed.

Property taxes (56%) and state aid (37%) account for the largest portion of operating fund revenues. In addition to increasing operating reserves during a period of declining enrollment, the district has also continued to operate under its levy limit. The district has not fully utilized its levy since 2009 and attributes its recent financial performance to prudent expenditure monitoring.

LIQUIDITY

District operating fund liquidity has improved in recent years and totaled \$6.4 million and 22.8% of revenues at the close of fiscal 2015. Five years prior in fiscal 2010, net cash across district operating funds totaled \$5.1 million. The district's growth in cash is due to increased reserve levels. Management intends to maintain a similar cash position over the near term. Unlike some Wisconsin school districts, Waupaca does not need to use short-term instruments to maintain sufficient cash flow for operations.

Debt and Pensions: Manageable debt burden with no future debt plans; affordable pension obligations

The district's debt profile is expected to remain manageable due to rapid principal amortization and limited plans for future issuances. At 0.9% of full valuation and 0.5 times operating fund revenues, the district's direct debt burden is below average. The district maintains a 15 year capital plan and has no plans to issue additional debt over the near term. Debt service costs accounted for an average 12% of total operating expenditures in fiscal 2015. Inclusive of debt service, pension and other post employment benefit expenditures, the district's total fixed costs accounted for a manageable 17% of operating fund expenditures.

DEBT STRUCTURE

The district's debt profile includes \$12.2 million in outstanding GOULT debt. Principal amortization is rapid as all of the district's debt is set to be retired by 2019.

DEBT-RELATED DERIVATIVES

The district has no derivative exposure.

PENSIONS AND OPEB

Costs associated with the district's exposure to the state multi-employer pension plan, the Wisconsin Retirement System (WRS), are expected to remain manageable. The district's total contribution to WRS in fiscal year 2015 was \$1.2 million. In the fiscal years fiscal 2013 through fiscal 2015, the district's Moody's adjusted net pension liability (ANPL) averaged a low 1.5% of full valuation and 0.8 times operating revenue. Moody's ANPL reflects certain adjustments we make to improve the comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported contribution information, but to improve comparability with other rated entities. We determined the district's share of liability for WRS in proportion to its share of covered payroll.

The district's other post-employment benefits liability is funded on a pay as you go basis, and the district contributed \$97,181 in fiscal 2015. The total unfunded liability is \$1.1 million as of July 1, 2014, the most recent actuarial valuation date.

Management and Governance: Strong institutional framework and prudent management

Wisconsin school districts have an institutional framework score of "Aa," or strong. School district revenues consist of varying levels of state aid and property taxes. Revenues are highly predictable as property taxes and state aid are received regularly. School districts' revenue-raising ability is moderate. Districts operate under state-imposed per-pupil revenue limits but are permitted to seek voter approval for property tax overrides. Expenditures consist primarily of personnel costs, which are moderately predictable. Districts have a high ability to reduce expenditures given the limited collective bargaining-ability of Wisconsin public school district employees.

In recent years, district management has proven an ability to make expenditure reductions in order to strengthen its financial position despite reductions in enrollment. District management conservatively budgets for revenues as well as expenditures and has generated General Fund operating surpluses in each of the last six fiscal years.

Legal Security

The district's GOULT debt, including the current issuance is secured by a dedicated property tax levy, unlimited as to rate and amount.

Use of Proceeds

Proceeds from the current issuance will be used to refund the district's GO Refunding Bonds, dated November 1, 2006 for an expected interest cost savings of approximately 3%.

Obligor Profile

Located in central Wisconsin, Waupaca School District serves an estimated population of 16,058 over an area of 160 square miles. District enrollment has declined in recent years and totaled 2,158 in 2016.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

Ratings

Exhibit 3

WAUPACA SCHOOL DISTRICT, WI

Issue	Rating
General Obligation Refunding Bonds	Aa3
Rating Type	Underlying LT
Sale Amount	\$3,165,000
Expected Sale Date	01/12/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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