

Understanding What Factors Determine a Credit Rating

Steps You Can Take to Strengthen Them

The logo for Baird, consisting of the word "BAIRD" in white, uppercase, sans-serif font, set against a dark blue parallelogram background.

WASBO 2021 Spring Conference
May 21, 2021 – 11:15am

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WHEN?

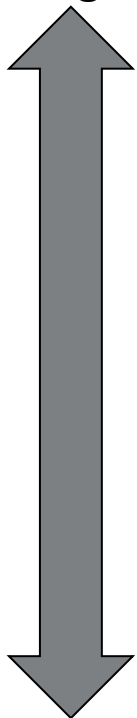
- New bond ratings are established with each new debt issue
- “Surveillance” ratings issued every few years
 - Secondary bond market

WHY?

- High bond rating means lower interest rates on new borrowing
- “Financial Report Card”
- Public relations

Bond Rating Scales

Strongest

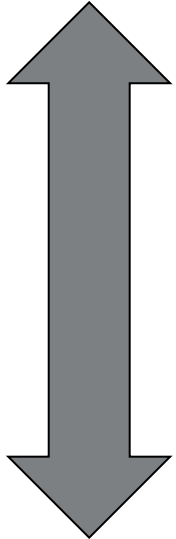


Weakest

Moody's Long-term	S&P Long-term	Fitch Long-term	Rating Description
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly speculative
B2	B	B	
B3	B-	B-	

Wisconsin School District Bond Ratings

Strongest



Weakest

Moody's	Number of School Districts
Aaa	3
Aa1	10
Aa2	53
Aa3	53
A1	38
A2	12
A3	0
Below Investment Grade	1
Total	170

S&P Global	Number of School Districts
AAA	0
AA+	4
AA	32
AA-	66
A+	88
A	15
A-	1
Below Investment Grade	2
Total	208

Historical Bond Rating Factors

Debt/ Pensions

- Debt as a % of Tax Base
- Debt as a % of Revenue
- Pension Liability as % of Full Value
 - Trend over time
- Pension Liability as a % of Revenues
- Security of Debt
- Pension risk
- Missed debt payments
- Other factors

Finances

- Fund Balance as a % of Operating Revenue
 - Trend over time
- Cash Balance as a % of Revenues
 - Trend over time
- Liability Risk
- Volatile Revenues
- Other factors

Economy/ Tax Base

- Full Value
- Full Value/Capita
- Median family Income
- Unemployment Rate
- Poverty Levels
- Institutional Presence
- Economic Concentration
 - Largest Taxpayers
 - Largest Employers
- Other Factors

Management

- Institutional Framework
- Legal Framework
- Operating History
- State Oversight
- Management and planning
- Other factors

Moody's "Scorecard"

U.S. LOCAL GOVERNMENT GENERAL OBLIGATION SCORECARD

Issuer Name:

Cambridge

Org ID:

		<i>Very Strong</i>	<i>Strong</i>	<i>Moderate</i>	<i>Weak</i>	<i>Poor</i>	<i>Very Poor</i>			
	Current Value	Aaa	Aa	A	Baa	Ba	B & Below	Implied Score	Implied Rating	
ECONOMY										
Resident Income (10%)	138.5%	≥ 120%	100 to 120%	80 to 100%	65 to 80%	50 to 65%	< 50%	1.27	Aaa	
Full Value per Capita (10%)	\$110,736	≥ \$180,000	\$100,000 to \$180,000	\$60,000 to \$100,000	\$40,000 to \$60,000	\$25,000 to \$40,000	< \$25,000	4.10	Aa3	
Enrollment Trend (10%)	2.0%	2 to 4%	0 to 2% or > 4%	-2 to 0%	-5 to -2%	-8 to -5%	> -8%	1.48	Aaa	
FINANCIAL PERFORMANCE										
Available Fund Balance Ratio (20%)	11.8%	≥ 25%	17.5 to 25%	10 to 17.5%	5 to 10%	0 to 5%	< 0%	6.79	A3	
Net Cash Ratio (10%)	3.2%	≥ 25%	17.5 to 25%	10 to 17.5%	5 to 10%	0 to 5%	< 0%	11.61	Ba2	
INSTITUTIONAL FRAMEWORK										
Determination of Operating Rev. (10%)	6.00	Very strong ability to determine revenue	Strong ability to determine revenue	Moderate ability to determine revenue	Limited ability to determine revenue	Not Applicable	Not Applicable	6.00	A2	
LEVERAGE										
Long-term Liabilities Ratio (20%)	173.9%	≤ 125%	125 to 250%	250 to 400%	400 to 550%	550 to 700%	> 700%	2.67	Aa2	
Fixed-Costs Ratio (10%)	6.3%	≤ 15%	15 to 20%	20 to 25%	25 to 30%	30 to 35%	> 35%	0.92	Aaa	
								Unadjusted Cumulative Rating	4.43	Aa3
Notching Factors										
								Very High Full Value Per Capita	-	
								Extremely High Resident Income	-	
								Limited Scale of Operations	-	
								Weak Financial Reporting	-	
								Potential Cost Shift to or from State	-	
								Potential for Significant Change in Leverage	-	
								Total Notching Factors	-	
								Cumulative Rating	4.43	Aa3

Scorecard-Indicated Outcome: 4.43 (Aa3)	
Score for Upgrade to Aa2:	3.50
Score for Downgrade to A1:	4.50

Janesville School District

Baird's Best Guess Indicative S&P Rating

Category	Institutional Framework			Financial Measures			Debt & Cont. Liabilities
	Framework	Economy	Management	Budgetary Flexibility	Budgetary Performance	Liquidity	
Category Weighting	10%	30%	20%	10%	10%	10%	10%
Best Guess District Score ⁽²⁾	3	3.5	3	1	3	1	2
Weighted Average ⁽²⁾	2.65						
Best Guess Indicative Rating ⁽²⁾	AA-						
Overriding Factors (Final Notch Overrides):	Projected per capita EBI > 225% of U.S. projected per capita EBI						N/A
	Projected per capita EBI > 300% of U.S. projected per capita EBI						N/A
	Total Market Value per capita < \$30,000						N/A
	Available FB > 75% of GF Exp (expected to continue)						N/A
	Available FB < \$500,000						N/A
Cap Overrides (rating capped):	Liquidity score equals 4						N/A
	Liquidity score equals 5						N/A
	Management score equals 4						N/A
	Management score equals 5						N/A
	Budget Flexibility score equals 5 (Available FB <-10% of GF Exp for most recently reported year)						N/A
	Available FB <-5% of GF Exp for the 2 most recently reported years						N/A
	Available FB <-5% of GF Exp for the 3 most recently reported years						N/A
Best Guess Indicative Rating After Overrides ⁽²⁾	AA-						

¹ Source: Standard and Poor's U.S. Local Governments General Obligation Bond Ratings: Methodology and Assumptions. September 12, 2013.

² Best guess estimate of score. Preliminary, subject to change.

The Steps – Setting Your District Up for Success



Fund Balance Policy/Trends

12 Steps

1. **Fund Balance**
2. Cash Position
3. Budget
4. Board Reporting
5. Multi-Year Planning
6. Debt Management Policy
7. Continuing Disclosure Filings
8. Enrollment Projections
9. Investment Policy
10. OPEB Obligations
11. Rating Agency
12. Know your Rating

Have a fund balance policy (and follow it!)

- Establish a targeted fund balance level
- Identify which types of expenditures are allowable for fund balance use
- Review and update as needed

Know and be able to explain your fund balance trends

- One-time planned draw on Fund Balance is usually not a problem
- Continued draws can be a problem

Maintain a solid Fund Balance (understand the possible impact of having a low Fund Balance).

Improve June 30th Cash Position

12 Steps

1. Fund Balance
2. **Cash Position**
3. Budget
4. Board Reporting
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Reduce accounts receivable where possible

Timely grant claims

Pay bills according to their remittance terms

If you payout contracts in June, maybe move to 12-month payout

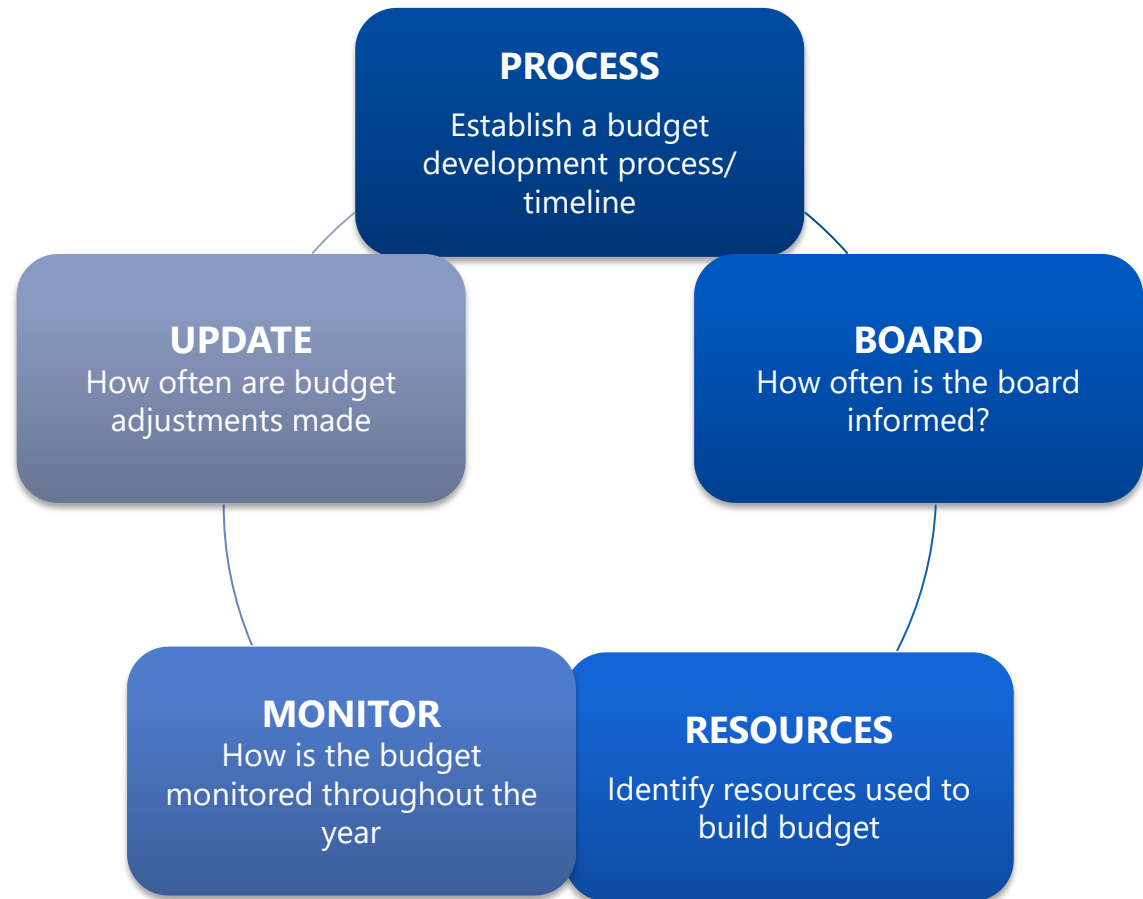


Options may be limited, but if you have a low cash balance or even negative balance every bit can help

Develop and Monitor a Budget

12 Steps

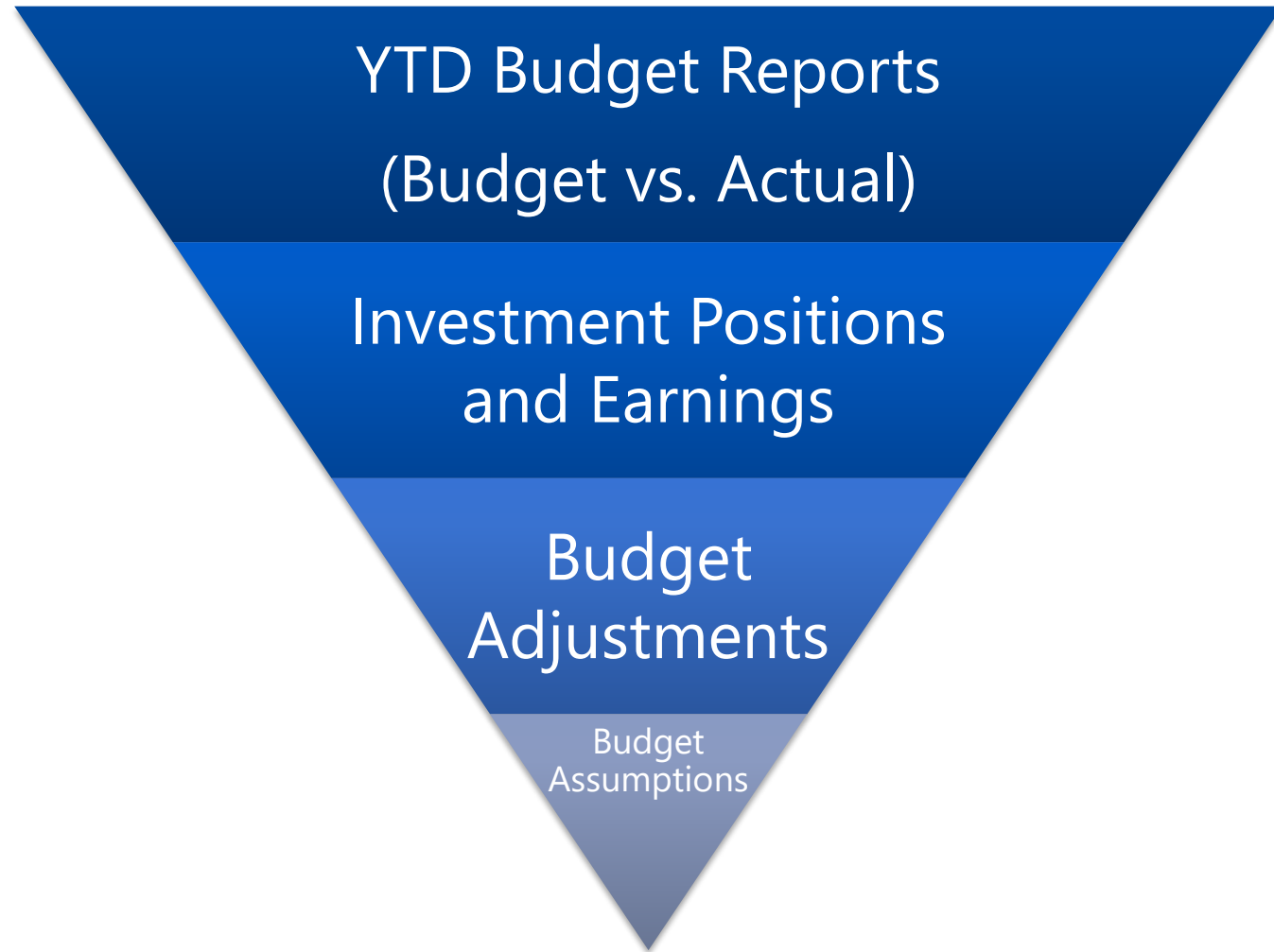
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Reporting to the Board of Education

12 Steps

1. Fund Balance
2. Cash Position
3. Budget
- 4. Board Reporting**
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Sample Board Reports

12 Steps

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3. Budget
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Bank Balance

Bank		Funds 10, 21, 27, 50, 80 and 99									
Account Type		General Funds									
Beginning Balance	\$16,000.00										
Less: Non-Transfer Disbursements	\$75,000.00										
Less: Transfer Disbursements											
Total Disbursements	\$75,000.00										
Plus: Non-Transfer Receipts	\$45,000.00										
Plus: Transfer Receipts	\$81,000.00										
Plus: Interest Revenue											
Total Receipts	\$86,000.00										
Ending Balance	\$27,000.00										
Actual Estimate											
Interest Rate											
Statement Received											
*ADM statements received on the 15th of the month											

Sample Bi-Monthly Financial Report

	Revised Budget	FYTD Activity	Balance	FYTD %	FYTD %	FYTD %	FYTD %
GENERAL FUND							
2,419,289.00	1,778.19	2,417,814.81	0.07	0.04	0.05	0.06	
6,000.00		6,000.00			26.67	65.44	
31,800.00	31,497.38	62.62	99.80	35.56	64.10	41.08	
32,000.00	16,404.00	15,596.00	51.26	49.64	51.13	35.34	
3,000.00	1,077.49	1,922.51	35.52	33.30	302.94	37.05	
6,800.00	7,756.92	-1,256.92	119.34	19.85	55.44	39.18	
7,910.00		7,910.00					
913,706.00		913,706.00					
5,000.00		5,000.00					
8,000.00		8,000.00					
52,444.00		52,444.00					
5,371,676.00	804,422.00	4,567,254.00	14.98	14.73	15.11	14.83	

Adopted Budget Adjustments

School District of Fall Creek

Notice is hereby given, in accordance with the provisions of Wisconsin Statute 65.90(5)(a), that the School Board of the School District of Fall Creek, on 7/17/17, adopted the following changes to previously approved budgeted 2016 - 17 amounts. The following presents only adopted budget line items with changes. Unchanged line items are not presented.

LINE ITEM	ACCOUNT CODE	GENERAL FUND		CHANGE \$
		PREVIOUS APPROVED AMOUNT \$	AMENDED APPROVED AMOUNT \$	
Expenditure Appropriations:				
Undifferentiated Curriculum	110000	1,721,538.95	1,706,538.95	(15,000.00)
Regular Curriculum	120000	2,158,024.95	2,117,024.95	(41,000.00)
Physical Curriculum	140000	213,530.00	218,030.00	4,500.00
Co-Curricular Activities	180000	285,313.00	245,313.00	(20,000.00)
Instructional Staff Services	220000	272,471.66	232,471.66	(40,000.00)
General Administration	230000	322,144.67	322,644.67	500.00
School Building Administration	240000	372,401.74	365,401.74	(7,000.00)
Business Administration	250000	1,488,739.09	1,428,739.09	(60,000.00)
Instructional Service Payments	430000	489,706.71	477,706.71	(12,000.00)
Inter-fund Transfers	410000	732,154.95	802,154.95	70,000.00
Total Expenditure Appropriations		8,036,025.72	8,036,025.72	0.00

2,072.00	518.00	1,554.00	25.00	0.27	2.35
682,409.00		682,409.00			0.02
616,790.00	4,974.42	611,815.58	0.81	0.55	0.66
100.00	94.00	6.00	94.00	61.80	26.00
9,352,279.00	1,879,162.96	7,473,116.04	20.09	21.29	22.20
		-1,011,159.38			

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Budget Forecasting

3-5 years beyond current year

Revenues and expenditures

Lookback?

Capital Improvement Planning

5-10 year plan

Identify future capital projects

Update Annually

Funding Sources

Debt Management Policy

12 Steps

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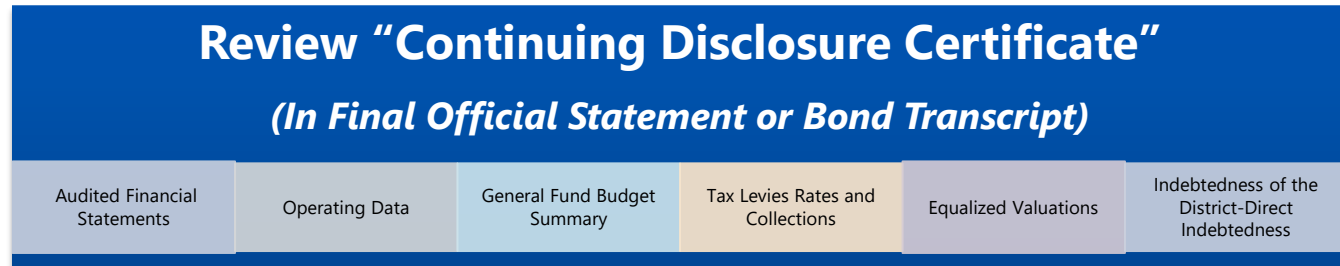
- ✓ Most Districts do not have
- ✓ Follow State Statutes?
- ✓ Permitted Purposes for Borrowing?
- ✓ Debt Limit?
- ✓ Payment Dates?
- ✓ Paying Agent?

Continuing Disclosure Filings

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- ✓ **Required for most public offerings**
- ✓ **Must be complete and timely**
- ✓ **Required data differs among districts**
- ✓ **Bank loans are voluntary**



Some issuers may have requirement to file notice for non-public debt (Bank Loan, Capital Lease, LOC, Cash Flow Borrowing etc.)

Enrollment Projections

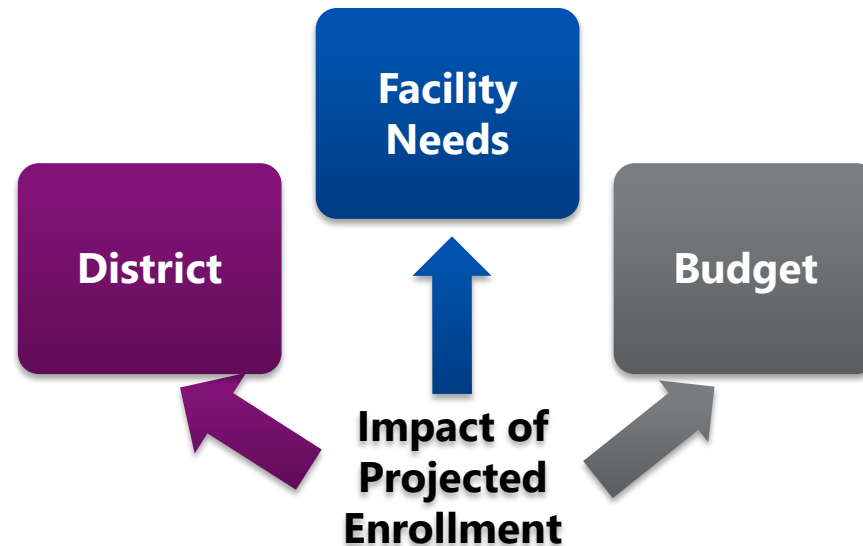
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To do:

- ✓ Establish and document methodology for projecting your enrollment
- ✓ Outside sources?
- ✓ Once determined, update enrollment projection periodically
- ✓ Plan for shifts in enrollment

Be Sure to Understand the Impact of the projected enrollment:



Develop/Maintain an Investment Policy

12 Steps

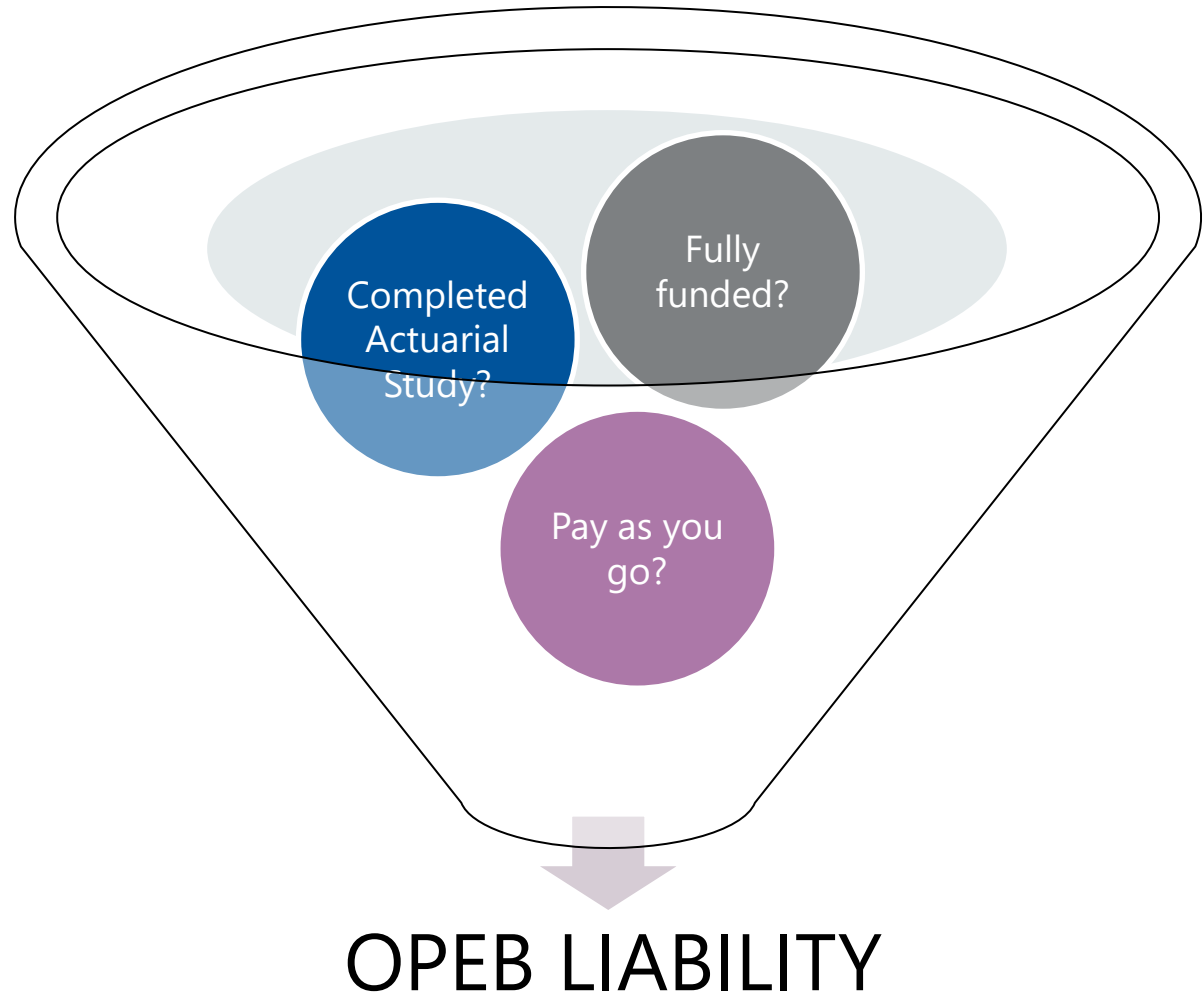
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- ✓ What is eligible for investments?
- ✓ For how long can the investment be held (i.e. temporarily, certain number of months)
- ✓ What type of investment instruments?
- ✓ Who will manage investment activities? How?
- ✓ Frequency of Investment Procedure Review(s)
- ✓ Approval process (if any)

Addressing OPEB Obligations

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Selecting a Rating Agency

12 Steps

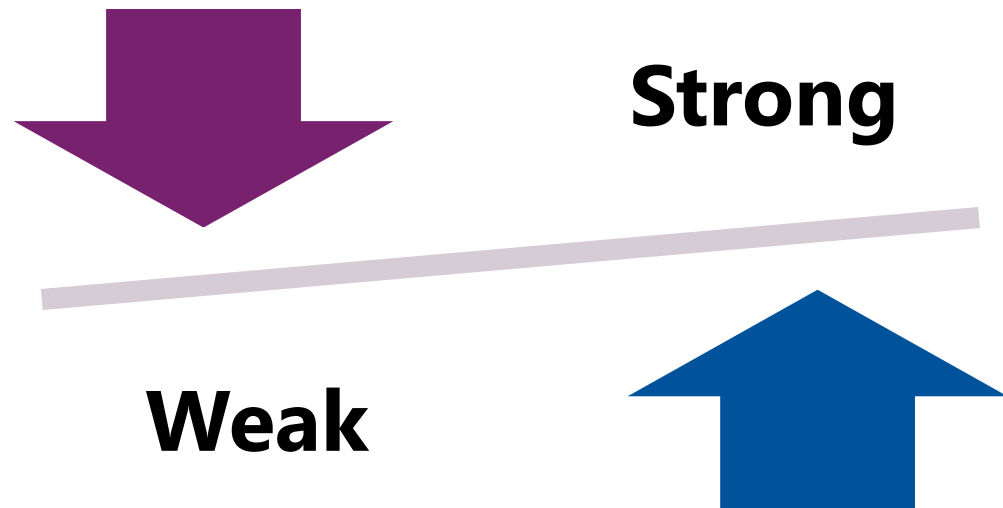
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Where does your District fall...

On Baird's Moody's Scorecard Model?

With Different Rating Questions?

Compared to Other Districts?



Rating Call Agenda (S&P)

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Economy

- Please update us on any major economic changes in the area in the last three years, including any changes in the major employers or taxpayers and any development that may have occurred (for example, major employer lay-offs, commercial/retail coming or going, etc.).
- Has there been any recent development in the residential, industrial or retail sectors?
- Please comment on the increasing Equalized Valuation trends for the district.

Enrollment

- What do you see as the driving factor in the current enrollment trends?
- Do you expect enrollment to remain stable, to increase or to decrease for the next few years?
- Do you hire a consultant to assist with projected enrollment? If not, what methodology do you use to project enrollment?
- How frequently are enrollment projections updated?

Finances

Fiscal 2015

- Comment on the operational deficit in the general fund.
- Comment on any expenditures eliminated in the general fund.
- Comment on the originally adopted budget and any variations that occurred throughout the year.

Fiscal 2016

- Comment on the operational surplus in the general fund.
- Comment on the lower instruction and support service expenditures compared to the prior year.
- Did the district make any major expenditure eliminations throughout the year?
- Comment on the variations between the original budget and the final year end results.

Fiscal 2017

- Comment on the budget adopted for the general fund.
- Why did the district budget for a deficit in 2017?
- What type of year end result does the district expect for fiscal 2017?
- What type of budget does the district expect to adopt for fiscal 2018 and why?

Debt

- Does the district anticipate issuing any debt within the next two years?
- Does the district have any direct purchase debt? (local bank loans)

- Does the district have any variable rate debt?

Impact of COVID 19

Enrollment

- Has enrollment increased or decreased
- Is the enrollment change a short-term or long-term

Expense impact

- Changes in expenses
- Use of Federal Funding

Revenue Impact

- Changes in revenue
- Amount of Federal Funding
- Plans Once Federal Funding Ends

Financial Management Assessment

Revenue/Expenditure Assumptions for Annual Budgeting

- How many years of history do you use when forecasting trends?
- What sources of information do you use outside of those in the district?
- What methodology do you use for budgeting (line item, zero base, etc.)

Budget Amendments & Updates

- As the fiscal year progresses, how many times per year do you provide the board or council with actual financial results compared to budgeted figures?
- In case of an emergency, how quickly could an amendment to the budget be made?
- How many amendments do you typically make to the budget on any given year?
- **Please send a copy of the most recent budget-to-actual report shown to the board.**

Long-Term Financial Planning

- Is any type of multiple-year financial forecasting utilized?
- If so, how many years into the future are considered?
- How frequently are these projections updated? If projections are done, are the results shared with the board or council?
- **Please send a copy of the long-term financial forecast.**

Long-Term Capital Planning

- Is a written, multiple-year capital improvement plan maintained?
- If so, how frequently is the plan updated?
- how many years does the plan look forward?
- does this plan identify sources of funding for each project only in the budget year or throughout the full life of the plan?
- If not, and no formal capital plan exists, is there an informal list of capital projects to be completed in the near future?
- are sources of funding and costs identified?
- how frequently is the list updated?
- **Please send a copy of the long-term capital plan**

Investment Management Policies

- Is there a formally approved investment management policy, or do you abide by state guidelines when making investments?
- How frequently is the board or council provided with information on the investment earnings?
- How frequently is the board or council provided with information on the investment account balances and account information?
- **Please send a copy of the Investment Management Policy.**

Debt Management Policies

- Is there an approved debt management policy that goes beyond statutory limitations to restrict the structure or amount of debt issued?
- **If so, please provide a copy of the policy.**

Reserve and Liquidity Policies

- Has the board or council approved a formal fund balance or reserve policy?
- If so, what is the minimum level of mandated reserves and why was that particular level chosen?
- If no formal policy exists, is there a particular goal or target reserve level which the board keeps in mind?
- If so, what is the target and why was it chosen?
- **Please send a copy of the Reserve Policy.**

Rating Call Agency (Moody's)

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Local Economy and Tax Base

Property Valuations

- Discuss most recent tax base valuations
- Expectations for future growth or decline

New Residential or Commercial Development

Largest Taxpayers and Employers

- Brief description or highlights of the top taxpayers and employers
- Have there been any recent or expected changes (expansion/contractions)?
- Have there been any major tax appeals?

Overview of the District

Enrollment

- Discuss historical enrollment trends and growth assumptions
- Does the district participate in open enrollment? Is there a net gain or loss of students?

Facilities

- Discuss impact of Project 1 & 2 on current facilities
- Discuss capacity in the district's current facilities
- Does the district expect any major changes to the high school in the future?

Programs

- Does the district anticipate adding any new programs or reducing existing programs?

Finances

General Information

- Is there a formal or informal General Fund balance policy?
- What lead to the trend of drawing down the General Fund? Is there a level the district doesn't want to fall below?
- How do the TIDs impact you and when are they expected to expire?

Previous Fiscal Year Results

- What lead to the approximately \$49,000 deficit?
- Any specific variances to budget from prior years?

Current Fiscal Year Budget

- What is the planned use of funds for?
- Did you make any assumptions that vary notably from previous years?

Next Fiscal Year Projections

- Do you expect an increase or decrease in General Fund reserves?
- What is the projected year-end balance?

Employee Contracts

- When are current labor contracts set to expire?
- What are the expected wage increases going forward?

Any areas of flexibility or pressure not discussed?

Existing and Future Debt Plans

- Discussion of upcoming 2018 debt
- Does the school district have any variable rate debt or swap agreements?
- Does the school district have any privately placed debt or bank loans?
- Is the school district party to any litigation?

Impact of COVID 19

Enrollment

- Has enrollment increased or decreased
- Is the enrollment change a short-term or long-term

Expense impact

- Changes in expenses
- Use of Federal Funding

Revenue Impact

- Changes in revenue
- Amount of Federal Funding
- Plans Once Federal Funding Ends

Moody's Updated Methodology

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Previous Methodology Weightings	New Methodology Weightings	Change in Emphasis Within Criteria
Economy and Tax Base 30%	Economy and Tax Base 30%	Less on Tax Base/More on Enrollment
Finances 30%	Finance 30%	Less on Historical Trends/More on Current Information
Management 20%	Institutional Framework 10%	Less on Operating History/More on State Framework
Debt/Pensions 20%	Leverage 30%	Less on Debt to Tax Base/More on Debt to Operating Budget

Strengths & Weaknesses – Existing Rating Reports

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The rating reflects our view of the district's:

- Participation in the broad and diverse Milwaukee metropolitan statistical area (MSA);
- Strong incomes and very strong per capita market value;
- Very strong general fund reserves, supported by consecutive general fund surpluses; and
- Low overall net debt burden.

- Very strong general fund reserves, supported by consecutive general fund surpluses; and
- Low overall net debt burden.

The district's unlimited-tax, full faith and credit pledge secures the series 2014 notes. Proceeds will finance capital maintenance and energy efficiency projects throughout district facilities.

Waukesha School District is 15 miles west of Milwaukee and serves a population of 93,026. It covers 64 square miles and serves the city of Waukesha and portions of the cities of Brookfield and Pewaukee as well as four other towns. The largest nongovernment employers in Waukesha include General Electric-Medical Systems (3,700 employees), Waukesha Memorial Hospital (1,699), and Cooper Power Systems (1,020). While the district offers ample employment opportunities, many residents commute throughout the Milwaukee area. We consider district median household and per capita effective buying incomes strong at 117% and 112% of respective national averages. Waukesha County unemployment averaged 5.9% in 2013, below the state average of 6.7%. The tax base is very diverse, with the leading 10 taxpayers accounting for just 4.1% of equalized value. Estimated full market value increased 2.5% in 2014 to a very strong \$8.9 billion, or \$85,592 per capita. Management reported recovery in the local housing market and commercial expansion that will likely lead to continued tax base growth.

A three-year moving enrollment average determines Wisconsin school district per-pupil revenue. While 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. Waukesha School District has had a gradual enrollment decline, with fiscal 2015 enrollment of 13,459, down 3.5% from fiscal 2010. Projections show a slight decline of 1.6% for fiscal 2016 and then stabilization. Management attributed declining enrollment to demographic trends. The district is a net gainer from open enrollment.

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Credit Strengths

- » Healthy fund balance, despite planned draw downs
- » Stable enrollment

Credit Challenges

- » Recent growth in debt burden, with additional borrowing in fiscal 2018
- » Slow amortization of debt

Americas	1-212-553-1653	Rating Outlook
Asia Pacific	852-2551-2677	Outlooks are typically not assigned to local governments with this amount of debt.
Japan	81-3-5488-4100	Factors that Could Lead to an Upgrade
MEA	44-20-7772-5424	<ul style="list-style-type: none"> » Strengthening and diversification of tax base » Steady growth in fund balance and liquidity » Moderation of the district's elevated debt burden
		Factors that Could Lead to a Downgrade
		<ul style="list-style-type: none"> » Weakening of the district's financial position » Material growth in the district's debt or pension burden » Significant declines in the district's tax base and/or demographic profile

Questions?

Important Disclosures

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