

ISSUER COMMENT

11 September 2020

RATING

General Obligation (or GO Related) ¹

A1 No Outlook

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West Salem School District, WI

Annual Comment on West Salem SD

Issuer Profile

West Salem School District is located in La Crosse County in western Wisconsin, approximately 10 miles northeast of La Crosse. The county has a population of 117,850 and a moderate population density of 260 people per square mile. The county's median family income is \$77,167 (1st quartile) and the July 2020 unemployment rate was 6.1% (2nd quartile) ². The largest industry sectors that drive the local economy are health services, retail trade and manufacturing.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for West Salem SD. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of West Salem SD changes, we will update our opinion at that time.

Credit Overview

The credit position for West Salem SD is sound. On the contrary, its A1 rating falls just short of the median rating of Aa3 for school districts nationwide. Key credit factors include a strong wealth and income profile, a modestly sized tax base, a mid-ranged pension liability, a sizable debt burden and an adequate financial position.

Economy and Tax Base: The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, healthcare, retail, and oil and gas could suffer particularly severe impacts.

Overall, West Salem SD has a quite healthy economy and tax base, which are slightly favorable in relation to its A1 rating. The median family income equates to a healthy 123.7% of the US level. Moreover, the full value per capita (\$92,540) is stronger than other Moody's-rated school districts nationwide, and increased dramatically from 2015 to 2019. That said, the total full value (\$931 million) is smaller than the US median.

Debt and Pensions: The debt and pension liabilities of West Salem SD are moderate overall and are aligned with the assigned rating of A1. The Moody's-adjusted net pension liability to operating revenues (1.1x) favorably is slightly lower than the US median. That said, this ratio increased modestly from 2015 to 2019. Moreover, the district's net direct debt to full value (3%) is materially above the US median.

Finances: The financial position of West Salem SD is adequate overall. However, this factor is largely aligned with respect to its A1 rating. The fund balance as a percent of operating revenues (13.1%) is below the US median, and fell between 2015 and 2019. On the other hand, the cash balance as a percent of operating revenues (2%) is far weaker than the US median.

Management and Governance: Wisconsin school districts have an institutional framework score ³ of "Aa," which is strong. The sector's main revenue sources are property taxes and state aid. Districts operate under revenue limits but have the ability to request voter authorization for levy overrides. Revenues and expenditures tend to be predictable. School districts benefit from strong state support, with increased appropriations under the state's 2017-19 biennial budget. Expenditures are somewhat flexible, as collective bargaining is curbed for non-public safety government employees. Across the sector, fixed and mandated costs are generally modest.

Sector Trends - Wisconsin School Districts

We expect state aid revenue to remain predictable as the timing of disbursement is dictated by state statute. However, school districts face the prospect of reduced state aid going forward due to the decline in state revenue caused by the coronavirus outbreak. The presence of charter schools may also cause financial pressure for some districts, as enrollment is a key determinant of operating revenue, though the majority of Wisconsin school districts do not face significant charter school competition. Most Wisconsin school districts participate in the Wisconsin Retirement System, which is relatively well-funded. Overall, fixed costs are manageable and not a pressure for school districts.

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.

EXHIBIT 1

Key Indicators [4](#) [5](#) West Salem SD

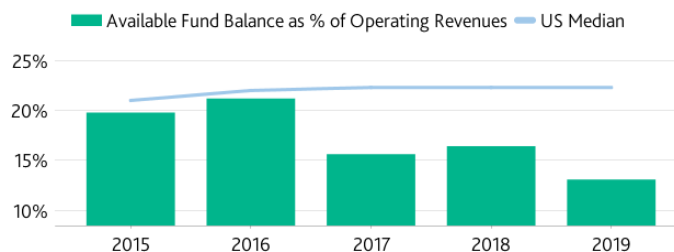
	2015	2016	2017	2018	2019	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$764M	\$802M	\$841M	\$904M	\$931M	\$1,919M	Improved
Full Value Per Capita	\$77,020	\$80,287	\$82,962	\$89,896	\$92,540	\$87,328	Improved
Median Family Income (% of US Median)	126%	133%	129%	124%	124%	101%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	19.8%	21.2%	15.6%	16.4%	13.1%	22.3%	Weakened
Net Cash Balance as % of Operating Revenues	9.3%	7.8%	7.8%	4.6%	2.0%	27.2%	Weakened
Debt / Pensions							
Net Direct Debt / Full Value	1.2%	0.9%	2.9%	3.1%	3.0%	1.6%	Weakened
Net Direct Debt / Operating Revenues	0.43x	0.34x	1.12x	1.17x	1.18x	0.73x	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.9%	2.6%	2.8%	2.8%	2.7%	3.3%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.68x	0.97x	1.07x	1.04x	1.09x	1.48x	Stable

	2015	2016	2017	2018	2019	US Median
Debt and Financial Data						
Population	9,922	9,992	10,140	10,065	10,065	N/A
Available Fund Balance (\$000s)	\$4,283	\$4,521	\$3,399	\$3,922	\$3,059	\$9,391
Net Cash Balance (\$000s)	\$2,023	\$1,666	\$1,701	\$1,094	\$460	\$11,164
Operating Revenues (\$000s)	\$21,641	\$21,325	\$21,744	\$23,870	\$23,358	\$42,583
Net Direct Debt (\$000s)	\$9,243	\$7,171	\$24,356	\$28,044	\$27,572	\$29,872
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$14,820	\$20,716	\$23,330	\$24,918	\$25,480	\$62,410

Source: Moody's Investors Service

EXHIBIT 2

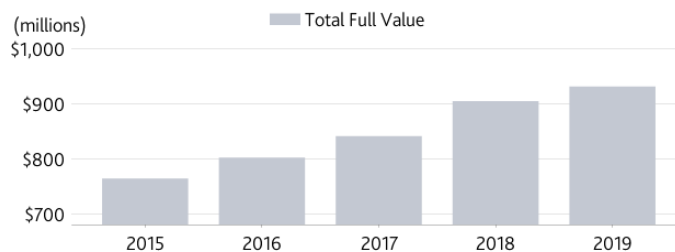
Available fund balance as a percent of operating revenues decreased from 2015 to 2019



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

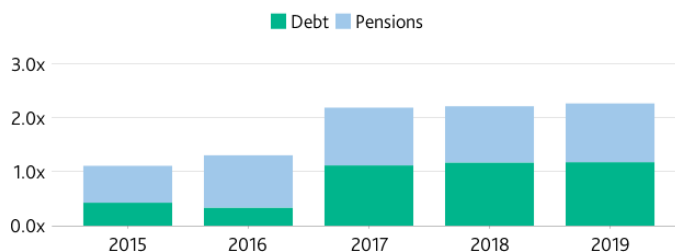
Full value of the property tax base increased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(September 2019\)](#) methodology report for more details.
 - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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