S&P Global Ratings

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Summary:

Madison Metropolitan School District, Wisconsin; General Obligation; Note

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Credit Profile		
US$50.0 mil TRANs ser 2024 due 09/02/2025		
Short Term Rating	SP-1+	New
Madison Metro Sch Dist taxable GO rfdg bnds ser 2021B due 03/01/2025		
Long Term Rating	AA+/Stable	Affirmed
Madison Metro Sch Dist GO sch bldg & imp bnds		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Madison Metropolitan School District, Wis.' anticipated $50 million series 2024 tax and revenue anticipation promissory notes (TRANs), due Sept. 2, 2025.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the district's general obligation (GO) debt outstanding based on the application of its "Methodology For Rating U.S. Governments", published Sept. 9, 2024, on RatingsDirect.
- The outlook, where applicable, is stable.

Security

All pledged taxes levied for operations and maintenance purposes, state aid, and other revenue attributed to the fiscal year ending June 30, 2025, including property taxes received in August 2025, secure the TRANs. The district will use TRANs proceeds for cash-flow purposes in fiscal 2025. The district's full faith and credit pledge secures the GO bonds.

Credit overview

Madison Metropolitan School District has demonstrated stable operating performance, supported by both revenue and expenditure adjustments to maintain balanced financial operations. Officials plan to put an operating levy increase and a bond referendum before voters in November 2024. While it structures its general fund budgets with deficits to align with its formal 10%-15% reserve policy, the district's conservative budget management typically yields better than expected results. The district has experienced recent staff shortages; management's strategy to overcome that challenge is to provide more competitive compensation. While officials have incorporated a salary increase into the 2025 budget, if voters support an operating revenue increase (as they have in the past) it will allow the budget to absorb the salary increases while maintaining an overall balanced budget.

One of the district's challenges has been a declining enrollment trend but officials anticipate the rate slowing or stabilizing during the next five years, given its favorable economic fundamentals. While chronic enrollment declines could lead to slowed state revenue growth, we expect that management will actively monitor the trend and adapt accordingly. Officials have a demonstrated history of conservative budgeting and proactive management resulting in positive budget variances. While updating its long-range facilities plan in 2024, officials identified capital needs at 40 of its existing school facilities. The district's planned $507 million bond referendum, if passed, would allow it to address its aging infrastructure and modifications to enhance accessibility and safety, as identified in the facilities plan.

The 'SP-1+' rating reflects our opinion of the district's:

- Historically reliable cash flow from property taxes and state aid; We calculated coverage for the series 2024 TRANs, after excluding the note proceeds, using ending cash balances on Aug. 31, 2025, given that the TRANS mature in early September 2025. Management provided its monthly cash-actual results and forecasts to S&P Global Ratings and projects $63 million of operating cash will remain after it repays the series 2024 TRANs, which provides 2.16x coverage of principal and projected interest, which we consider very strong.
- Very strong actual 2.28x debt service coverage for the $60 million series 2023 TRANs that matured earlier this month, which was slightly higher than the 2.22x projected at issuance.
- Overall improved cash position since 2020, which has resulted in it issuing $50 million-$60 million in TRANs in recent years, compared to the $70 million that was typical previously. Unfilled positions have led to larger than expected positive budget variances in 2023 and 2024, leading to better than expected budgeted outcomes, and easing cash flow needs as the district enters fiscal 2025.
- Note resolution stipulating that the TRANs are due in a single maturity--with one interest payment at maturity, and no early set-asides. Although the district is an independent entity, the city of Madison holds and invests the district's cash pursuant to the district's direction and in accordance with its investment policy. Investments are primarily held in the city of Madison's investment pool, the Wisconsin investment cooperative, and highly rated government bonds.

Credit fundamentals supporting the 'AA+' GO rating include:

- Per capita gross county product for Dane County is 127.9% of the U.S. level, and per capita personal income is 112.6%, reflecting a robust and vibrant economy that also benefits from hosting the state capital and University of Wisconsin's flagship campus in Madison.
- Operating results that typically outperform budgeted assumptions. We expect the district will manage the budget in a manner that allows it to absorb expenditure increases set against a more modest pace of revenue growth and maintain reserves in line with its policy.
- Conservative budgeting practices and long-term financial planning practices and proactive monitoring of trends after budget adoption that benefit the district's financial operations. The district also has basic policies governing reserves and investments.
- A manageable debt burden, both in terms of amount of outstanding debt and current costs. Pension and retiree healthcare contributions pose minimal direct budgetary pressure to the district due to the high funding level of the Wisconsin Retirement System pension plan and minimal post-employment benefits. We expect that, while the planned bond issuance may increase per capita debt, current costs will likely remain manageable and affordable.
- Institutional framework: for more information on our institutional framework assessment for Wisconsin school districts, see "Institutional Framework Assessment: Wisconsin Local Governments," published Sept. 10, 2024, on RatingsDirect.

Environmental, social, and governance

The district's environmental risks are somewhat elevated due to Madison's susceptibility to flash and lake-level flooding affecting large areas of the city, though we consider this risk minimal with respect to the district's ability to pay debt in a timely manner. Social and governance factors align with its peers, as do the district's cyber security practices.

Outlook

The stable outlook on the GO debt reflects our expectation that the district will carefully manage its rising salary expenses during the two-year outlook horizon and maintain reserves in keeping with its fund balance policy.

Downside scenario

We could take a negative rating action if salary growth outpaces the district's recurring revenues, causing reserves to fall to levels we think no longer support the current rating.

Upside scenario

We could take a positive rating action if our view of the district's comprehensive policies and practices improves, and if its financial performance yields reserves that better align with its higher-rated peers.

Credit Opinion

Economy

Madison Metropolitan School District serves the city of Madison and several neighboring communities. Its economy and tax base are stable and demonstrate steady growth. The district historically has also relied on voter-approved operating levies to augment property tax revenue, the most recent in November 2020. Management expects its declining enrollment trend to stabilize, which should alleviate financial pressure, particularly if the state's support of a growing per-pupil revenue limit wanes. Per-pupil revenue funding is on a three-year rolling average basis, which softens the effects of year-to-year student fluctuations. We expect management will take steps to rebalance the budget if voters reject the operating levy increase or if state funding were to weaken.

The district's stable and diverse economy is anchored by state government and the University of Wisconsin. New commercial and multifamily development indicates steady valuation growth should continue, which benefits the district as it is mostly property tax reliant.

Financial performance, reserves, and liquidity

Recent budgets are structured to bring reserves down toward the district's formal fund balance policy of 10%-15% of expenditures, but positive budget variances, some due to revenue and expenditure adjustments but also due to conservative assumptions, have led to better-than-expected outcomes. Fiscal 2023 ended with a $6.7 million use of general fund reserves compared to the budgeted $22 million. Fiscal 2024 included a similar use of reserves but officials anticipate the year may end with a surplus that adds $24 million to its fund balance. Notably, officials have reported a tight labor market has led to higher-than-desired staff vacancies leading to a significant budget variance. For the 2025 budget, officials have incorporated a 2% salary increase and a planned $47 million use of reserves. If voters support the operating revenue increase, which would yield a net $100 million of revenue spread across four years, officials intend to amend the 2025 budget to incorporate the roughly $30 million revenue increase as well as an additional 2% salary increase beyond the one already factored into the budget, with the expectation that the ending result will be at least neutral.

Management

In our view, the district's financial management practices support balanced operations and long-term fiscal stability. Officials rely on annually updated long-term financial forecasting and enrollment projections when constructing the budget and, after the budget is adopted, use quarterly financial reporting to manage outcomes. Officials update the long-range facilities plan every three years. The district has a formal investment and a formal reserve policy to maintain the general fund balance at 10%-15% of expenditures to cover cash-flow needs and contingencies, though we note the district has historically relied on annual TRANs to support cash flow. The district does not have a formal debt policy.

Debt

The district's debt burden is manageable, its pension and other postemployment benefits are modest, and neither are likely to pressure its medium-term operational health. Officials have historically used operating surpluses to pay down debt sooner than required, another indicator of management and budgetary strength. The district currently has $268 million of outstanding GO bonds with plans for additional debt, though it likely will not be issued all at once. Assuming full issuance, we believe its debt metrics may marginally rise, but will remain manageable and affordable relative to its economy and finances.

Table 1

Madison Metropolitan School District, Wisconsin--credit summary	
Institutional framework (IF)	2
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Management	1.65

Table 2

Madison Metropolitan School District, Wisconsin--key credit metrics	Most recent	2023	2022	2021
Economy				
GCP per capita % of U.S.	128	--	128	129
County PCPI % of U.S.	113	--	113	112
Market value ($000s)	42,290,005	38,532,513	33,151,092	33,128,222
Market value per capita ($)	150,463	137,095	120,451	122,789
Top 10 taxpayers % of taxable value	3.1	--	3.0	3.4
County unemployment rate (%)	2.3	2.3	2.1	2.9
Local median household EBI % of U.S.	100	100	100	100
Local per capita EBI % of U.S.	113	114	115	114

Table 2

Madison Metropolitan School District, Wisconsin--key credit metrics (cont.)				
	Most recent	**2023**	**2022**	**2021**
Local population	281,065	281,065	275,225	269,798
Financial performance				
Operating fund revenues ($000s)	--	485,167	467,326	437,888
Operating fund expenditures ($000s)	--	492,114	444,855	408,974
Net transfers and other adjustments ($000s)	--	259	(15,817)	(7,008)
Operating result ($000s)	--	(6,688)	6,654	21,906
Operating result % of revenues	--	(1.4)	1.4	5.0
Operating result three-year average %	--	1.7	2.9	3.1
Enrollment	--	25,682.0	25,536.0	26,011.0
Reserves and liquidity				
Available reserves % of operating revenues	--	17.4	19.2	20.4
Available reserves ($000s)	--	84,267	89,718	89,127
Debt and liabilities				
Debt service cost % of revenues	4.9	4.9	8.2	7.3
Net direct debt per capita ($)	972	1,047	757	506
Net direct debt ($000s)	273,329	294,236	208,215	136,523
Direct debt 10-year amortization (%)	41.0	--	--	--
Pension and OPEB cost % of revenues	4	4	4	4
Net pension liabilities per capita ($)	389	389	127	136
Combined net pension liabilities ($000s)	109,392	109,392	34,929	36,611

GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.