

# RatingsDirect®

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## Summary:

# Madison County School District No. 15 (Wood River-Hartford), Illinois; General Obligation

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### Credit Profile

Madison Cnty Sch Dist #15 Wood River-Hartford GO (ASSURED GTY)

*Unenhanced Rating*

A(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services affirmed its 'A' underlying rating on Madison County School District No. 15 (Wood River-Hartford), Ill.'s general obligation bonds. The outlook is stable.

The rating reflects our view of the district's:

- Local economy, which is centered on industrial employers, and access to larger employment bases in the diverse St. Louis area economy;
- Good income levels and adequate market value per capita;
- Historical maintenance of a strong unreserved fund balance, albeit on a cash basis, offset in part by an expected drawdown in fiscal 2015; and
- Low-to-moderate overall net debt burden and low carrying charges.

In our view, the district's limited taxing flexibility for general operations somewhat offsets the above strengths.

The district serves an estimated population of 6,000 in Madison County and is located in southwestern Illinois, approximately 10 miles northeast of St. Louis. The local economy, including the major employers and taxpayers, has generally been stable. Equalized assessed value (EAV) has increased in the past five years in part due to a major expansion by WRB Refinery LLC. District EAV has increased by 13.5% in the past five years to \$104.9 million in fiscal 2015, and the district's market value of \$314.7 million equates to \$52,513 per capita, which we consider adequate. In addition, income levels in the district are good, in our opinion, with median household effective buying income at 87% of the national level. Enrollment has remained relatively stable at about 800 students. Management expects enrollment to remain stable in the future.

The district is subject to a rate cap, and is currently levying at its maximum rate for operations. After a slight deficit in fiscal 2012, the district returned to positive operations in fiscal years 2013 and 2014, with slight surpluses of \$183,000 and \$65,000, respectively, on a cash basis of accounting. The unreserved general fund (the combined education and operation and maintenance [O&M] fund) cash balance at fiscal year-end 2014 was \$1.3 million, or about 18.9% of expenditures, which we view as very strong.

However, we understand that unaudited fiscal 2015 results indicate a drawdown of about \$390,000, reducing the unreserved general fund cash balance to approximately \$893,000, which in our view is a still strong 13% of expenses.

Management attributes the drawdown to increased expenditures. To cope with increased expenditures, the district is in the process of implementing expenditure reductions. As such, we believe management expects to finish fiscal 2016 much closer to breakeven.

The district has additional liquidity in the working cash fund, which at fiscal year-end 2014 had a balance of \$2.0 million, or 28.5% of general fund expenditures, which we consider strong. The combined general and working cash fund balance equaled \$3.3 million, or about 47% of general fund expenditures, which we consider very strong. In addition, we understand that the district has no current plans to spend down the working cash reserves.

We revised Financial Management Assessment (FMA) score on the district to "standard" from "good," reflecting a better understanding of the district's multiyear financial planning, which it has not formally maintained on an annual basis. An FMA of "standard" under Standard & Poor's methodology indicates the finance department maintains adequate policies in some but not all key areas. Management prepares budget-to-actual reports monthly, while the board receives an indepth breakdown every quarter, and strives to maintain reserve levels at the current level for cash flow purposes. However, the district lacks formalized long-term financial and capital planning on an annual basis and does not maintain a debt management policy.

We consider the district's overall net debt burden to be low on a net direct debt basis. Overall net direct debt on a per capita basis is \$293, or 0.6% of market value. Carrying charges are 4.9%, which we consider low. We understand that the district has no future debt plans at this point.

The district participates in Illinois Municipal Retirement Fund (IMRF), the Teachers' Retirement System, and Teacher Health Insurance Security. The district made 100% of its annual pension cost of \$211,000, or about 2.5% of combined educational and O&M fund expenditures, to the IMRF for the year ended Dec. 31, 2014. Its IMRF plan was 66% funded with an unfunded actuarial accrued liability of \$885,000. The district does not offer other postemployment benefits.

## Outlook

The stable outlook reflects our opinion that the district will continue to budget effectively and make expenditure cuts as necessary to maintain at least good financial reserves on a cash basis. However, if management is unable to match revenues to expenditures, resulting in continued drawdowns on the district's financial position to levels we consider low, we could take a negative rating action. On the other hand, if district's economic metrics improve or if the district formalizes some of its financial policies and practices, we could raise the rating.

## Related Criteria And Research

### Related Criteria

- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006

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- USPF Criteria: Financial Management Assessment, June 27, 2006

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