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5 school districts put on Moody's watch list

Credit rating service could reduce ratings of Kenosha, Kimberly, Waukesha, West Allis-West Milwaukee, Whitefish Bay

By [Amy Hetzner](#) of the Journal Sentinel

Posted: March 31, 2010 | [\(2\) Comments](#)

Five Wisconsin school districts that recently had \$165 million in loans called by a European bank have been put on a watch list for possible credit ratings downgrades.

If Moody's Investors Service reduces their ratings, the districts - Kenosha, Kimberly, Waukesha, West Allis-West Milwaukee and Whitefish Bay - could pay higher interest rates to borrow in the future.

Watch lists typically last for 90 days, during which the rating agency studies factors such as management, debt loads, tax bases and other financial indicators before deciding whether to adjust an organization's credit rating, Moody's analyst Beth Dougherty said.

"We'll take the time we need to make sure that we have the necessary information on hand to make any ratings decisions," she said.

The last time Moody's put the five districts on a watch list was shortly after they filed a lawsuit in 2008 against two investment banks that sold them \$200 million worth of complex investments known as collateralized debt obligations.

The districts used the \$165 million that they borrowed through trusts from DEPFA Bank along with an additional \$35 million of existing and borrowed collateral to make the investments, which have lost most of their value and are unlikely to pay out when they mature in 2013.

Profits from the investments were supposed to fund non-pension retirement benefits for district employees.

In February 2009, Moody's downgraded the credit ratings of two districts - Waukesha and West Allis-West Milwaukee - and noted that all five districts could face downgrades if their trusts did not meet their moral obligations to repay DEPFA. [The downgrades](#) still left Waukesha's rating equal to the median for school districts in Wisconsin, while West Allis-West Milwaukee's rating was slightly higher than the median.

Even though the districts have been in technical default on their debt to DEPPFA for more than two years, the bank waited until [this month](#) to accelerate their payments and to seize about \$5.6&enspmillion from the districts' trusts. Bank officials say they have been trying to work out a repayment plan with district officials.

The Whitefish Bay district, which has one of the highest credit ratings given by Moody's to a Wisconsin school system, could be the most affected by any change in its rating.

Last year, the district won approval to issue \$22.6 million in bonds to pay for upgrades in its school buildings.

The district has been waiting to borrow that money until it sees if it qualifies for low-interest bond programs offered through the federal economic stimulus program, said Shawn Yde, the district's director of business services.

Even if Whitefish Bay has to pay a surplus interest rate on those bonds, it likely will be less than the 5.5% rate that the district budgeted for the referendum measures, he said.

"Obviously, we haven't been downgraded yet," Yde said. "We're in active negotiations trying to solve the situation."

All of the districts have different credit ratings and some have no plans to borrow money in the near future, said C.J. Krawczyk, an attorney representing the districts in their investment lawsuit against Stifel, Nicolaus Co. Inc. and Royal Bank of Canada. He said he was not aware of any existing debt that would be affected by a ratings change.

"While Moody's might be reviewing things, we have to let the process unfold," he said. "The dialogue that the districts have had with Moody's has been real open and real constructive."

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did anyone lose their job at the schools over this? at least we have that bottomless bank account to tap into - the taxpayers. Afterall, it will be for the children, who could object?

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Remarkably, the same bunch of clowns are running for the school board in Waukesha. We received teachers union propaganda asking to vote for this group again. None of them should be re-elected after this fiasco. It just shows we need more people with a business background and fiscal responsibility on these boards, rather than ex-teachers, school administrators etc.

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