MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A1 to the CDA of the City of Sun Prairie, WI's Lease Revenue Bonds, Ser. 2014A and assigns Aa2 to the City of Sun Prairie's GO Bonds, Ser. 2014B and 2014C

Global Credit Research - 22 May 2014

Maintains A1 on $18.8M of lease revenue debt and Aa2 on $46.1M of GO debt

SUN PRAIRIE (CITY OF) WI
Cities (including Towns, Villages and Townships)
WI

Moody's Rating

ISSUE		RATING
Community Development Lease Revenue Refunding Bonds, Series 2014A		A1
Sale Amount	$12,790,000	
Expected Sale Date	05/29/14	
Rating Description	Lease Rental: Appropriation	
General Obligation Promissory Notes, Series 2014B		Aa2
Sale Amount	$6,030,000	
Expected Sale Date	05/29/14	
Rating Description	General Obligation	
Taxable General Obligation Refunding Bonds, Series 2014C		Aa2
Sale Amount	$4,340,000	
Expected Sale Date	05/29/14	
Rating Description	General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, May 22, 2014 --Moody's Investors Service has assigned an A1 rating to the Community Development Authority (CDA) of the City of Sun Prairie, WI's $12.8 million Community Development Lease Revenue Refunding Bonds, Series 2014A. Concurrently, Moody's has assigned a Aa2 rating to the City of Sun Prairie, WI's $6 million General Obligation Promissory Notes, Series 2014B and $4.3 million Taxable General Obligation Refunding Bonds, Series 2014C. The series 2014A bonds are secured by lease payments from the City of Sun Prairie, subject to annual appropriation. Proceeds of the Series 2014A bonds will current refund the CDA's Series 2003 bonds and advance refund the CDA's Series 2005 and 2006 bonds for estimated present value savings of 7.1% of refunded principal. The Series 2014B notes and 2014C bonds are secured by the city's general obligation unlimited tax pledge (GOULT). Proceeds of the Series 2014B notes will finance the city's annual capital improvement projects. Proceeds of the Series 2014C bonds will refinance the city's Series 2009 GO Promissory Notes in order to restructure the notes into long-term debt. Moody's maintains the A1 rating on the city's outstanding lease revenue debt issued through the CDA and the Aa2 rating on the city's outstanding GOULT debt. Post-sale, the city will have $18.8 million in CDA lease revenue debt and $46.1 million of GOULT debt outstanding.

SUMMARY RATING RATIONALE

The A1 rating on the Series 2014A lease revenue bonds reflects the annual risk of non-appropriation by the city; the non-essential purpose of the leased assets (the property dedicated for public road purposes located in Tax Increment District No. 8 and all public improvements thereon and thereunder including municipally owned sewer mains, water mains, stormsewer pipes); and the general obligation characteristics of the city.

The Aa2 general obligation rating reflects the city's moderately-sized tax base located adjacent to the city of Madison (Aaa stable); above average wealth indices; sound financial operations and healthy reserve levels; elevated debt burden with rapid principal amortization; and modest exposure to unfunded pension liabilities.

STRENGTHS

- Favorable location adjacent to the City of Madison, home to the capital of the State of Wisconsin (Aa2 stable) and the flagship campus of the University of Wisconsin

- Stable finances with healthy General Fund reserve levels

CHALLENGES

- Recent declines in tax base valuations, though the trend has recently stabilized

- Elevated debt burden relative to tax base and budget size

DETAILED CREDIT DISCUSSION

SECURITY PROVIDED BY LEASE PAYMENTS FROM CITY OF SUN PRAIRIE

The legal provisions contained within the city's amended lease agreement provides adequate protection for bond holders. The lease revenue bonds are secured by lease payments from the city to the CDA, which are intended to be paid from revenues from Tax Increment Financing (TIF) District No. 8 but will be made from other available revenues if the TIF revenues fall short. These payments will be remitted to the bond trustee prior to the due date for principal and interest payments. The lease payments are due semi-annually on January 1st and July 1st of each year which provides adequate distance from the debt service due dates which are February 1st and August 1st of each year. A debt service reserve will be funded to the lesser of i) the amount required to be on deposit in the reserve account prior to the issuance of the bonds plus 10% of the principal amount of the bonds ii) maximum annual debt service (MADS) on the bonds and parity bonds, or iii) 125% average annual debt service.

DIVERSE TAX BASE BENEFITS FROM PROXIMITY TO MADISON

Despite recent declines in valuation, the city's economy will likely remain stable due to ongoing commercial development and its location near Madison which provides city residents with ample employment opportunities. Located in central Dane County (Aa1 negative) 10 miles northeast of downtown Madison, the city encompasses approximately 11.5 square miles. In 2013, the city's $2.4 billion tax base experienced modest growth of 0.6%, reversing the three year trend of declines in full value. The five year average annual change in full value is -1.8%. City officials attributed previous years' declines to a lagging real estate market, but expect the trend to return to growth.

The city is mostly residential (70.1% of full value) and many residents commute to Madison for work. However, the city also has a sizable commercial presence (25.3% of full value), which the city is trying to bolster through its use of tax increment financing (TIF) districts. The city has exhibited sustained population growth with a 33% increase between 1990 and 2000 followed by 44% increase from 2000 to 2010, according to census figures. The city's favorable location near Madison, availability of developable land, and recently completed transportation infrastructure upgrades have all contributed to this growth. A large portion of the city remains available for residential development. The construction of single family home increased substantially in 2013, growing to 121 new homes from 58 in the prior year. Overall, the Madison economy benefits from the stability of two significant institutions: the University of Wisconsin's main campus, which enrolls 42,000 students, and the state capital. City wealth levels exceed state indices and Sun Prairie's July 2013 unemployment rate of 5.8% was below state and national rates of 6.8% and 7.7%, for the same time period, respectively.

Sun Prairie continues to plan for long term growth. It's comprehensive development plan outlines where and how development shall occur in the future, with special attention to the city's west side, which is emerging as one of the city's primary growth areas. To further encourage development, the city has established several TIF districts. TIF 7 and 8 have been generating substantial revenues due to ongoing development, while TIF 6 is performing somewhat below expectations, largely as a result of the broader economic conditions. At the end of 2013, TIF 9 had not generated any tax increment; however, there are several large developments occurring within the TIF district. The city recently signed development agreements for the construction of a Cabela's store, Marcus Theatre's movie theatre, and adjacent mixed used development within TIF 9. The city has not yet incurred any significant costs related to TIF 10 which lost value in the most recent year, and the city is considering closing the TIF or pursuing a recertification of the TIF's base value.

SOUND FINANCIAL OPERATIONS CHARACTERIZED BY HEALTHY RESERVES

The city's financial profile will likely remain sound as a result of healthy reserve levels and a trend of conservative budgeting practices. The city has achieved operating surpluses for the past three fiscal years. Fiscal 2012 audited financial statements show the General Fund balance increased by $1.4 million to $8.6 million, or a healthy 39.0% of revenues. Officials note the fiscal 2012 surplus was due to an increase in ambulance service fees and payment in lieu of taxes (PILOT) from the city's utility. The available General Fund balance increased by $715,000 to $6.5 million, or a sound 29.5% of revenues. The difference between the city's total GAAP-basis General Fund balance and its available General Fund balance is attributable to $1.6 million in advances to TIF Funds and $500,000 of inventory and prepaid balances that are designated as non-spendable. The city expects to repay the advances as the TIF districts generate tax increment revenue in excess of their annual debt service, but there is no schedule of repayment. The city also assigns a portion of its General Fund Balance for various future program expenditures and capital purchases. At the end of fiscal 2012, the city's unassigned General Fund Balance was $3.2 million, or 14.7% of revenues, which is within the city's fund balance policy of maintaining its unassigned fund balance between 12% and 18% of revenues.

Audited financial statements are not yet available for fiscal 2013, but management reports that there was a $400,000 increase in the city's total General Fund balance to approximately $9 million. However, the city provided additional advances of $118,000 to TIF 6 and $209,000 to TIF 9, and the majority of the remaining surplus was designated to be used for future capital equipment purchases. Management reports that the unassigned fund balance grew by a more modest $19,000. In fiscal 2014, the city passed a balanced budget with no increase to the city's property tax levy for the fifth consecutive year. Instead, the city enhanced its revenues through increased garbage fees. The city expects balanced operations with no change or a modest increase in General Fund reserves. Favorably, the city has the ability to increase its operating levy if needed by moving debt service payments accommodated within its base levy into the debt service exception category. The city's projected 2015 available levy limit exception is $7.1 million. The city's largest revenue source is property taxes, which comprised 56.0% of General Fund revenues followed by state aid at 18.1% in fiscal 2012.

ABOVE AVERAGE NET DIRECT DEBT BURDEN AND HIGH OVERALL DEBT BURDEN

Including both its Community Development Authority (CDA) and general obligation debt, Sun Prairie's direct debt burden is an above average 2.7% of full value. The city's high overall debt burden of 8.6% is primarily attributable to the borrowing of the local school district. Principal amortization is aggressive, with 97.5% of principal retired in ten years. Nearly one third of the city's direct debt is CDA-lease revenue debt which is paid by TIF revenues from TIF districts 6, 7, and 8. Of the city's outstanding GO debt, the city plans to abate approximately 10% of the principal and interest with revenues from the city's TIF districts and sewer and stormsewer enterprises, and the remaining 90% will be paid by the city's debt service levy. Debt service comprised a high 39.0% of fiscal 2012 operating expenditures. Going forward, the city expects to borrow annually for capital improvements. The amount of borrowing is yet to be determined, but management estimates it may be approximately $5 million annually and will be based upon project prioritization. We expect the city's debt burden to remain manageable given the city's rapid principal amortization. However, given the size of the city's existing debt burden and general weakening of EAV growth, future credit reviews will focus on the city's debt profile. All of the city's debt is fixed rate, and the city is not a party to any interest rate swap agreements.

The city has a favorable employee pension burden, based on unfunded liabilities for its participation in the Wisconsin Retirement System (WRS), a multiple-employer cost-sharing plan administered by the state, and the City of Sun Prairie Water and Light Commission Plan, a single-employer plan administered by the city. The city recently adjusted the Water and Light Commission Plan such that all employees hired after 2013 will be part of a defined contribution plan rather than the defined benefit plan, mitigating future liabilities. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was $5.7 million for fiscal 2012. In the three years through fiscal 2012, the district's ANPL has averaged a very low 0.13 times annual operating revenue and 0.14% of full valuation. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended replace the district's reported contribution information, but to improve comparability with other rated entities. We determined the district's share of liability for WRS in proportion to its contributions to the plan and covered payroll.

WHAT COULD CHANGE THE RATING - UP

- Economic expansion as reflected in tax base growth

- Growth in unassigned General Fund reserves

WHAT COULD CHANGE THE RATING - DOWN

- Material declines in fund balances and liquidity

- Tax base erosion leading to valuation figures below similarly rated entities

- Significant growth in the district's direct debt burden

KEY STATISTICS:

Tax base size - 2012 Equalized Value: $2.4 billion

Full Value Per Capita: $80,666

Socioeconomic Indices - MFI: 124.1%

Fiscal 2012 Available Operating Funds Balance: 23.3% of revenues

5-Year Dollar Change in Available Operating Fund Balance as % of Revenues: 5.1%

Fiscal 2012 Operating Funds Cash Balance: 20.5% of revenues

5-Year Dollar Change in Cash Balance as % of Revenues: 0.1%

Institutional Framework: A

Operating History: 5-Year Average of Operating Revenues / Operating Expenditures: 1.01x

Net Direct Debt / Full Value: 2.7%

Net Direct Debt / Operating Revenues: 2.32x

3-Year Average of Moody's Adjusted Net Pension Liability / Full Value: 0.14%

3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues: 0.10x

PRINCIPAL METHODOLOGIES

The principal methodology used in the General Obligation debt was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the Lease Revenue debt was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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