

CREDIT OPINION

28 September 2016

New Issue

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Sun Prairie (City of), WI

New Issue - Moody's Assigns Aa2 to Sun Prairie, WI's GO Bonds and Notes

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to Sun Prairie, WI's \$9.4 million General Obligation Corporate Purpose Bonds, Series 2016A and \$12.0 million General Obligation Promissory Notes, Series 2016B. Moody's maintains the Aa2 rating on the city's previously issued general obligation unlimited tax (GOULT) debt and A1 rating on the city's outstanding lease revenue debt. Post-sale, the city will have \$52.6 million in GOULT debt and \$14.6 million in lease revenue debt.

The Aa2 rating on the city's GOULT debt reflects the city's large tax base located adjacent to the city of Madison (Aaa stable); above average resident income indices; sound financial operations and healthy reserve levels; elevated debt burden and manageable unfunded pension liabilities.

The A1 lease revenue rating reflects the credit characteristics inherent in the city's GOULT rating; the annual risk of non-appropriation by the city for lease payments, and the leased asset, various economic development projects in the city's tax increment districts, that we consider to be less essential to municipal operations.

Credit Strengths

- » Large tax base adjacent to the City of Madison
- » Sound financial operations and healthy reserve levels

Credit Challenges

- » Elevated direct and overall debt burden
- » Above average fixed costs
- » Some exposure to underperforming tax increment districts (TID)

Rating Outlook

Outlooks are generally not assigned to local government credit with this amount of debt.

Factors that Could Lead to an Upgrade

- » Significant tax base growth and improvement of resident income levels
- » Moderation of the city's debt burden

Factors that Could Lead to a Downgrade

- » Tax base deterioration or weakening of resident income indices
- » Growth of the city's debt burden
- » Reduced operating fund reserve levels or available liquidity

Key Indicators

Exhibit 1

Sun Prairie (City of) WI	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 2,455,734	\$ 2,353,843	\$ 2,368,669	\$ 2,413,489	\$ 2,566,184
Full Value Per Capita	\$ 85,955	\$ 80,407	\$ 79,273	\$ 78,870	\$ 80,672
Median Family Income (% of US Median)	123.8%	122.5%	125.4%	117.5%	117.5%
Finances					
Operating Revenue (\$000)	\$ 28,931	\$ 36,700	\$ 32,171	\$ 28,590	\$ 28,291
Fund Balance as a % of Revenues	20.2%	17.8%	20.8%	23.9%	25.9%
Cash Balance as a % of Revenues	12.8%	16.0%	23.5%	29.3%	22.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 70,658	\$ 67,941	\$ 67,254	\$ 76,969	\$ 70,711
Net Direct Debt / Operating Revenues (x)	2.4x	1.9x	2.1x	2.7x	2.5x
Net Direct Debt / Full Value (%)	2.9%	2.9%	2.8%	3.2%	2.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.1x	0.1x	0.2x	0.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.1%	0.2%	0.2%	0.3%

Source: Audited Financial Statements; US Census; Moody's Investors Service

Recent Developments

Since the city's last rating report on June 11, 2015 the city posted a \$1 million General Fund surplus in fiscal 2015. Tax base growth of 8% in assessment year 2016 increased the city's equalized valuation to \$2.8 billion.

Detailed Rating Considerations

Economy and Tax Base: Large Tax Base Near Madison Experiencing Continued Growth

The city's tax base is expected to remain a credit strength given its favorable location near Madison and continued economic development activity. Located in central Dane County (Aa1 stable) 10 miles northeast of downtown Madison, the city encompasses approximately 12 square miles. After several years of valuation decline, coinciding with the most recent economic downturn, the city's equalized valuation has grown each of the last four years and totaled \$2.8 billion as of assessment year 2016. Recent tax base growth has been driven by residential, commercial and industrial development activity. Residential development has been particularly strong, as residential permits have increased every year dating back to at least 2012 and totaled 163 in 2015. Residential development is expected to continue given a tight real-estate market and significant land available for future development.

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. Estimates from 2016 reflect an 11% increase from 2010 to 32,613. Resident income levels are above average and are estimated at 117.5% of the national median. At 2.9% as of July 2016, the city's unemployment rate remains well below state and national figures of 4.1% and 5.1%, respectively.

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.

Financial Operations and Reserves: Stable Financial Profile Supported By Healthy Reserves

The city's financial profile is expected to remain stable given healthy reserve levels and prudent management. The city closed fiscal 2015 with a General Fund surplus of \$1.0 million, increasing total General Fund reserves to \$10.5 million and 47% of General Fund revenues. Of the total General Fund balance, \$3.0 million was classified as non-spendable, including \$2.5 million in advances to TID #6, #8, #9, #10 and #11. Net of non-spendable and restricted portions, the city's available General Fund balance totaled \$7.4 million and a still healthy 33% of General Fund revenues. Across the city's main operating funds (combined General and Debt Service Funds) available operating reserves totaled \$7.3 million, equivalent to 25.9% of operating fund revenues. For fiscal 2016, management originally budgeted for a General Fund deficit, but now plans to end the year with a modest operating surplus given a variety of favorable budgetary variances including lower than anticipated public works expenditures.

In fiscal 2015 advances to TIDs grew by \$455,000 to \$2.5 million. TID #8 and TID #9 account for a majority of the interfund advances due to the General Fund at \$1.1 million and \$1.2 million, respectively. Projections show TID #9 advances beginning to be repaid in fiscal 2016. Advances to TID #8 are expected to grow to \$1.5 million by 2024, due to additional capital needs before being fully repaid in 2026.

LIQUIDITY

The city's liquidity remains sound despite growing interfund advances made to city TID districts. At the close of fiscal 2015, net cash across city operating funds totaled \$6.4 million and 22.7% of operating fund revenues. Operating fund liquidity is expected to improve over the medium-term as TID districts repay the General Fund for prior advances.

Debt and Pensions: Elevated Debt Burden, Manageable Unfunded Pension Liabilities

The city's debt burden will likely remain above average given future borrowing plans. Inclusive of the current issuances, the city's direct and overall debt burdens were above average at 2.8% and 7.0% of full valuation. The city's high overall debt burden is largely due to the significant borrowing of Sun Prairie Area School District (Aa2). The city's capital improvement plan calls for approximately \$35 million in debt over the next five years. A significant portion of the city's future debt plans are expected to be abated by utility and tax increment revenues. Debt service expenditures totaled \$7.3 million or a high 25.8% of operating fund revenues. Overall fixed costs (combined debt service, pension and other post-employment benefit (OPEB) expenditures) totaled \$7.9 million and 28% of operating revenues.

DEBT STRUCTURE

All of the city's debt is fixed rate and long-term. Amortization of existing debt is above average as 91% of principal is set to be retired over the next ten years. The city's debt profile includes \$52.6 million in GOULT debt and \$14.6 million in lease revenue debt. The lease revenue debt was issued by the Community Development Authority of Sun Prairie and secured by lease payments from the city.

DEBT-RELATED DERIVATIVES

The city has no exposure to debt related derivatives.

PENSIONS AND OPEB

Costs associated with the city's exposure to the state multi-employer cost-sharing pension plan, the Wisconsin Retirement System (WRS), are expected to remain manageable. In fiscal 2015 the city contributed the required employer share of WRS annual costs, totaling \$644,000. Fiscal 2015 pension contributions amounted to 2.3% of operating revenue. Wisconsin state legislation (Act 10) prohibits local governments from making non-public safety employee contributions to WRS on behalf of employees, capping local government contributions to the statutorily required employer contribution rate. Moody's three-year adjusted net pension liability (ANPL) for the city through 2015, under our methodology for adjusting reported pension data, was \$8 million, or a low 0.3% of full value and 0.3 times operating fund revenue. However, the single-year ANPL of \$12.3 million in 2015 is up significantly from \$9.8 million in 2014 and \$2.0 million in 2013, and equivalent to a higher 0.4 times operating revenues and 0.5% of full value. The Moody's ANPL reflects the use of a market-based discount rate to value liabilities, and, beginning in fiscal 2015, reflects the cost-sharing plan allocations reported by the city under new GASB accounting standards. Our pension adjustments are not intended as a guide, but rather to enhance the comparability of rated entities in our credit analysis.

The city administers a single-employer defined benefit healthcare plan. The city's group health insurance plan provides coverage to active employees and retirees (or other qualified terminated employees) at blended premium rates resulting in an implicit rate subsidy

and OPEB liability. As of January 1, 2014, the most recent actuarial valuation date, the plan had an unfunded actuarial accrued liability of \$107,000 or less than 1% of operating revenues. The plan is funded on a pay-as-you-go basis and the city's contribution totaled \$14,700 in fiscal 2015.

Management and Governance: Moderate Institutional Framework

Wisconsin cities have an institutional framework score of "A," or moderate. Revenues are highly predictable as property taxes and state aid represent the largest revenue streams. Overall, cities have low revenue-raising ability. Property tax levy caps generally restrict cities from increasing their operating property tax levy except to capture amounts represented by net new construction growth. Favorably, under current levy limit laws, the city could have levied an additional \$6.5 million in fiscal 2016. Expenditures mostly consist of personnel costs, which are moderately predictable. Expenditures are somewhat flexible, as collective bargaining is allowable for public safety employees but is curbed for non-public safety employees.

Sun Prairie management employs conservative budgeting techniques that have led to a steady increase in General Fund reserves over the last five years.

Legal Security

The city's GOULT debt, including the current issuances are secured by a dedicated property tax levy, unlimited as to rate and amount. While ultimately secured by the city's GOULT pledge, the Series 2016A bonds are expected to be fully abated by water, stormwater and electric utility net revenues.

The city's lease revenue debt is secured by the city pledge to make lease payments, subject to annual appropriation, to the Community Development Authority of Sun Prairie.

Use of Proceeds

Proceeds from the city's Series 2016A Bonds will be used to provide funding for improvements to the city's water, stormwater and electric system.

Proceeds from the city's Series 2016B Notes will be used in part to advance refund certain maturities of the city's Series 2009 Bonds for an estimated net present value savings of 5%. Remaining proceeds will be used to finance sewer utility and tax increment improvements as well as to provide funds for certain capital purchases.

Obligor Profile

The city of Sun Prairie is located adjacent to Madison and covers 12 square miles. The city's 2010 Census population was 29,364.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moody's.com for a copy of this methodology.

Ratings

Exhibit 2

Sun Prairie (City of) WI

<u>Issue</u>	<u>Rating</u>
General Obligation Corporate Purpose Bonds, Series 2016A	Aa2
Rating Type	Underlying LT
Sale Amount	\$9,375,000
Expected Sale Date	10/04/2016
Rating Description	General Obligation
General Obligation Promissory Notes, Series 2016B	Aa2
Rating Type	Underlying LT
Sale Amount	\$11,960,000
Expected Sale Date	10/04/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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REPORT NUMBER 1043327