MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa3 RATING TO THE CITY OF WHITEWATER'S (WI) $5.6 MILLION GENERAL OBLIGATION CORPORATE PURPOSE BONDS

Global Credit Research - 25 Apr 2012

Aa3 RATING APPLIES TO $22.9 MILLION IN POST-SALE GOULT DEBT

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

Moody's Rating

ISSUE		RATING
General Obligation Corporate Purpose Bonds		Aa3
Sale Amount	$5,635,000	
Expected Sale Date	05/04/12	
Rating Description	General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, April 25, 2012 --Moody's Investors Service has assigned a Aa3 rating to the city of Whitewater's (WI) $5.6 million General Obligation Corporate Purpose Bonds. Concurrently, Moody's has affirmed the Aa3 rating on the city's outstanding general obligation unlimited tax debt. Post-sale, the city will have $22.9 million of outstanding general obligation debt.

SUMMARY RATING RATIONALE

The bonds are secured by the city's general obligation unlimited tax pledge. Proceeds of the bonds will finance capital improvement projects throughout the city and refund an outstanding bank loan. Assignment and affirmation of the Aa3 rating reflects the city's stable local economy anchored by a state university, sound financial profile supported by adequate reserves, and an elevated debt burden supported by rapid principal amortization.

STRENGTHS

- Stable economy that benefits from the institutional presence of the University of Wisconsin at Whitewater

- History of conservative budgeting and the presence of stable reserves

CHALLENGES

- State imposed levy limits restrict city's revenue raising flexibility

- Tax base exhibits a degree of taxpayer concentration with top 10 taxpayers comprising 18.6% of 2011 full valuation

DETAILED CREDIT DISCUSSION

LOCAL ECONOMY DOMINATED BY STATE UNIVERSITY EXPECTED TO REMAIN STABLE

We expect the city's tax base to remain stable due to the institutional presence provided by the presence of the University of Wisconsin at Whitewater. The city is favorably located 45 miles southeast of Madison (general obligation rated Aaa/stable outlook) and 55 miles southwest of Milwaukee (rated Aa2/stable outlook). The local economy is dominated by the UW-Whitewater campus and, while the university's property is tax-exempt and consequently unavailable as a taxable resource, the university is the city's largest employer with 1,500 full-time employees and has an enrollment of approximately 11,600. Despite recent aid cuts to the state's university system, the Whitewater campus is expected to continue to expand, albeit at a slower pace than over the last several years.

While the tax base grew at a robust average annual growth rate of 7.9% from 2002 to 2007, growth slowed in 2008 and 2009 before declining modestly by 0.3% and 0.9% in 2010 and 2011, respectively, reflecting the national economic recession. Management anticipates the tax base will experience an additional modest decline in 2012 and then stabilize. The city's largest tax payer is DLK Enterprises, which provides off-campus rental properties for students and comprises 7.6% of the city's full valuation in 2011. Generac, the city's second largest taxpayer and employer (comprising 2.3% of full valuation and employing 400), manufactures generators and gasoline engines. In November 2011, Generac, which is based in nearby Waukesha (general obligation rated Aa1), announced plans to add 400 new jobs, 300 of which will be in Whitewater.

At 8.8% in February 2012, the unemployment rate in Walworth County (general obligation rated Aa1) was slightly above both the state and national rates of 7.9% and 8.7%, respectively, during the same time period. The city's resident income profile is skewed downward given the presence of the large student population, which accounts for roughly 80% of the total population. While the per capita income figures reflect the impact of the substantial student population (68.7% of the state average), the median family income is much stronger at 92.1% of the state average.

SOUND FINANCIAL POSITION SUPPORTED BY CONSERVATIVE MANAGEMENT

We expect the city to maintain a sound financial position due to prudent management evidenced by relatively healthy reserves. Since 2005, the city has maintained essentially balanced operations with the exceptions of fiscal 2008. In fiscals 2005, 2006 and 2007 the city's General Fund balance remained stable at $2.5 million, equal to 29.5% of fiscal 2007 revenues. The city realized an operating deficit of $197,000 in fiscal 2008 due to higher than expected expenditures related to snow and ice removal early in the year and flood clean up over the summer. While the city did receive about $100,000 in Federal Emergency Management Agency (FEMA) reimbursement, the operating deficit reflects the out of pocket cost incurred by the city net of the reimbursement from FEMA. Fiscal 2009 and fiscal 2010 closed with modest operating deficits of $63,000 and $85,000, which slightly reduced the General Fund reserve to $2.2 million, or a satisfactory 25.5% of General Fund revenues. For fiscal 2011, city management budgeted for the use of $75,000 of reserves, though a smaller operating deficit of $45,000 is expected. For fiscal 2012, the city has budgeted to use $75,000 of reserves and reports that revenues and expenditures are tracking close to budget. Although the city applies a modest amount of reserves to the budget each year, management does not expect to fall out of compliance with its General Fund balance policy of holding at least 20% of the subsequent year's budget in reserve.

Intergovernmental aid is the largest source of revenue for the city and accounted for 53.1% of General Fund revenues in fiscal 2010. The city receives a portion of its operational revenue from state shared utility revenue. Since the property valuation of a co-generation facility, constructed and operated by LS Power (senior secured rated Baa3/stable outlook), is not included in the city's tax base, the utility pays tax on gross receipts to the state and the state subsequently makes annual payments to the city based on the valuation of the utility's assets. Payments of $750,000 began in 1997 and will continue in lesser amounts going forward. Payments are tied to the depreciated value of the facility and therefore will decline annually unless improvements are made to the plant. The 2012 payment is budgeted at $530,000 and the minimum the payment can be is $225,000. Management uses these funds to cash finance capital projects, in order to preserve structural fiscal balance between recurring revenues and recurring expenditures. The second largest source of revenue, property taxes, comprised 28.2% of the city's fiscal 2010 General Fund revenues.

MANAGEABLE DEBT POSITION WITH SIGNIFICANT NON-LEVY SUPPORT; RAPID PRINCIPAL AMORTIZATION

We expect the city's debt burden will remain manageable given support from non-levy sources and rapid principal amortization. At 3.6% and 4.6% of full valuation, the city's direct and overall debt burden are slightly elevated when compared to state and national medians. The city's general obligation debt service is supported by revenues from the city's water and sewer utilities as well as increment from the city's Tax Increment Districts. Debt service was the city's largest operating expenditure in fiscal 2010 accounting for 51.5% of operating expenditures due to a large refunding. In fiscal 2009, debt service comprised a more moderate 23.9% of the city's operating budget. Principal amortization is rapid with 73.0% of general obligation debt repaid in ten years. The city expects to borrow $1.8 million for capital projects in 2014. Concurrent with this general obligation debt issuance, the city's water and sewer utilities are issuing $865,000 and $1.5 million in debt supported by the net revenues of the respective systems. All of the city's debt is fixed rate and the city is not a party to any interest rate swap agreements.

WHAT COULD MOVE THE RATING UP:

- Diversification and expansion of the tax base coupled with strengthening of the resident income profile

- Reduction in the city's direct debt burden

WHAT COULD MOVE THE RATING DOWN:

- Multi-year trend of operating deficits leading to limited reserves and liquidity

- Deterioration of the tax base and resident income profile

KEY STATISTICS

2010 Census population: 14,390 (7.1% increase since 2000)

2011 Full valuation: $632 million

Estimated full valuation per capita: $43,902

2006-2010 Per capita income: $18,288 (68.7% of state; 66.9% of US)

2006-2010 Median family income: $59,747 (92.1% of state; 94.9% of US)

Walworth County unemployment rate: 8.8% (state at 7.9%; US at 8.7%)

Fiscal 2010 General Fund balance: $2.2 million (25.5% of General Fund reserves)

Fiscal 2010 General Fund net cash balance: $1.9 million (21.7% of General Fund revenues)

Principal amortization (10 years): 73.0%

Direct debt burden: 3.6%

Overall debt burden: 4.6%

Post-sale general obligation debt outstanding: $22.9 million

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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