

RatingsDirect®

Summary:

Whitewater, Wisconsin; Water/Sewer

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Credit Profile

US\$1.39 mil wtrwks swr sys rev bnds ser 2024B due 05/01/2044

Long Term Rating A-/Stable New

Whitewater W/S (BAM)

Unenhanced Rating A-(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings assigned its 'A-' long-term rating to Whitewater, Wis.' \$1.4 million series 2024B waterworks and sewer revenue system bonds.
- At the same time, S&P Global Ratings affirmed its 'A-' long-term rating on the city's existing waterworks and sewer revenue obligations.
- The outlook is stable.

Security

The bonds are secured by a combined pledge of net water and sewer system revenues and are on parity with revenue debt outstanding. We the bond provisions as credit neutral, with a rate covenant of 1.2x of all existing parity bonds, an additional bonds test requirement of 1.2x average annual debt service payment and not less than the 1.2x the maximum annual debt service (MADS), and a debt service reserve funded at a level equal to 10% of proceeds, MADS, or 125% of average annual debt service on additional debt. Officials intend to use the series 2024B bond proceeds to finance water and wastewater system improvements.

Credit overview

Whitewater's combined utility (water and sewer) credit quality is anchored by generally stable financial performance, ongoing rate increases to help support costs, and a stabilizing influence the presence of the University of Wisconsin-Whitewater's 11,000 students within a city population that totals 15,000. Incorporated into our analysis are the weakness of the limited economy and all-in debt service coverage (DSC) levels that have declined in 2023 from higher debt service costs layered in from debt issued in 2022. Based on the city's forecasts we expect DSC will rebound to sufficient levels of 1.1x-1.2x with proposed rate increases. Whitewater's below-average economic metrics, particularly income levels, are likely suppressed by the presence of the University of Wisconsin's 11,000 students of a city of 15,000.

Moderate rate increases are anticipated over the next four years in each system ranging between 3% and 5%, although not approved yet, to support operations and finance a portion of capital needs. Water rates are governed by the Wisconsin Public Service Commission, while the sewer rates are set by the city council. The latest water rate increase was 30% in 2023, and latest sewer rate increase in 2022 was 18%.

The combined utility's total capital improvement plan (CIP) is \$11.3 million over the next four years (2024-2028), with plans to borrow an additional \$8.2 million, with the remaining amount to be financed with a combination of grants, American Rescue Plan Act funds, and cash. Based on the borrowing plans, we anticipate the combined system will become more leveraged.

The rating also reflects our view of the utility's:

- Customer concentration from its top customers Wisconsin Electric Power Company for water and the University of Wisconsin for sewer, but ultimately a stable customer base that is predominately residential, and weak economy somewhat offset by the stabilizing presence of the university;
- Combined water and sewer monthly residential rates that remain affordable based on income levels;
- Standard Operational Management Assessment, which includes sufficient water supply and treatment capacity, with annual review of rates as part of the budgeting process;
- Adequate DSC and liquidity levels that represent 738 days cash worth of expense, more than doubling the cash over past three years to \$7.4 million in draft audit fiscal 2023;
- Moderate debt burden that we expect will worsen with anticipated borrowings, and participation in the well-funded Wisconsin Retirement Plan; and
- Financial management policies and practices that we view as good including monthly reviews of the budget by the city council, and long-term financial and capital planning.

Environmental, social, and governance

We consider environmental and social risk factors credit neutral in our analysis. Whitewater has continued efforts toward system efficiency, benefitting from water loss between 0% and 10%, a fairly new wastewater facility, and very few delinquent accounts. Governance factors are comparable with those of national peers because the city updates regulations through its long-term capital plan, and performs risk management through backup generators, rate increases, capital planning, and operational practices to ensure financial and operational stability.

Outlook

The stable outlook reflects our view that the combined system will maintain adequate levels of all-in DSC, prioritize renewal and replacement of its infrastructure, and maintain very strong liquidity.

Downside scenario

We could lower the rating should the utility's DSC decline due to rising operating expenses or increasing debt service requirements that are not offset by rate increases, resulting in all-in coverage below sufficiency. Furthermore, we could take a negative rating action should liquidity metrics materially deteriorate.

Upside scenario

We view a higher rating as unlikely as it would require significant expansion and diversification of the local economy, improved wealth levels, and a sustained trend of stronger DSC.

Credit Opinion

Whitewater is approximately 50 miles southwest of Milwaukee and the local economy is propelled by the Whitewater branch of the University of Wisconsin. Metered accounts of both systems total approximately 3,740 and are located primarily within Walworth County, although about 13% are within Jefferson County. Although the systems are operated separately, their combined net revenue pledge secures the bonds.

Capacity at both treatment plants is well set for future demand, with the wastewater treatment facility renovated in 2019.

Whitewater, Wisconsin--Economic and financial data

	Most recent	Fiscal year-end			
		2023	2022	2021	Median (A-)
Economic data					
Water customers (no.)	3,318				3,210
Sewer customers (no.)	3,238				2,570
MHHEBI of the service area as % of the U.S.	61.1				77.0
Unemployment rate (%)	2.8				4.2
Poverty rate (%)	8.5				12.9
Water rate (6,000 gallons or actual) (\$)	35.8				43.0
Sewer rate (6,000 gallons or actual) (\$)	60.7				42.0
Annual utility bill as % of MHHEBI	2.9				1.5
Operational Management Assessment	Standard				Standard
Financial data					
Gross revenues (\$000s)		6,876	6,468	6,238	2,250
Total operating expenses less depreciation (\$000s)		3,662	3,370	3,149	1,741
Net revenues available for debt service (\$000s)		3,423	3,376	3,421	--
Debt service (\$000s)		3,006	2,012	2,012	--
S&P Global Ratings-adjusted all-in DSC (x)		1.0	1.3	1.3	1.5
Unrestricted cash (\$000s)		7,409	4,632	3,202	1,362
Days' cash of operating expenses		738	502	371	328
Total on-balance-sheet debt (\$000s)		31,042	32,991	28,113	8,410
Debt-to-capitalization ratio (%)		49.3	51.6	48.2	50.0
Financial Management Assessment	Good	--	--	--	Standard

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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