MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS A2 RATING TO THE CITY OF WHITEWATER'S (WI) $3.3 MILLION TAXABLE GO COMMUNITY DEVELOPMENT BONDS AND $2.1 MILLION GO REFUNDING BONDS

Global Credit Research - 13 Jan 2010

A2 RATING APPLIES TO $19.6 MILLION OF POST-SALE GOULT DEBT

Municipality
WI

Moody's Rating

ISSUE		RATING
Taxable General Obligation Community Development Bonds (Build America Bonds)		A2
Sale Amount	$3,290,000	
Expected Sale Date	01/19/10	
Rating Description	General Obligation	
General Obligation Refunding Bonds		A2
Sale Amount	$2,140,000	
Expected Sale Date	01/19/10	
Rating Description	General Obligation	

Opinion

NEW YORK, Jan 13, 2010 -- Moody's Investors Service has assigned an A2 rating to the City of Whitewater's (WI) $3.3 million Taxable General Obligation Community Development Bonds, which will be offered as Build America Bonds, and $2.1 million General Obligation Refunding Bonds. Concurrently, Moody's has affirmed the A2 rating on the city's outstanding general obligation debt affecting $14.1 million. Both the taxable and tax-exempt bonds are secured by the city's general obligation unlimited tax pledge. The community development bonds will finance infrastructure improvements within the city's technology park (tax increment financing district four). The tax-exempt bonds will refinance three state loans and two privately placed loans for a net present value savings. The A2 rating reflects the city's sound financial position, stable local economy significantly anchored by a state university, and manageable debt profile.

LOCAL ECONOMY DOMINATED BY STATE UNIVERSITY EXPECTED TO REMAIN STABLE

Whitewater is favorably located 45 miles southeast of Madison (general obligation rated Aaa/stable outlook) and 55 miles southwest of Milwaukee (rated Aa2/negative outlook). The city's economy is dominated by the University of Wisconsin-Whitewater campus. While the associated property is tax-exempt and consequently unavailable as a taxable resource, Moody's believes that the stability and employment opportunities that it affords local residents are significant positive credit factors. The university is by far the largest employer with over 1,000 employees and enrollment has hit a record level of approximately 11,000 students. The school continues to expand and, as evidence, has recently opened a new business school and residence halls this fall. In 2008 the value of the city's building permits swelled due to a $30 million university construction project.

The city's tax base is moderately-sized at $639 million, though this excludes the university campus, and growth over the last five years has been somewhat measured, averaging 5.1% increases annually. The city has encouraged diversity and growth through the successful use of tax increment districts (TIDs), including five additional TIDs established in 2007. Wealth indices are skewed downward given the presence of the large student population which accounts for 78% of the population. While the per capita income figures reflect the impact of the substantial student population (65.7% of the state average), the median family income is much stronger at 91.1% of the state average. Walworth County's (general obligation rated Aa2) unemployment rate of 7.8% in October 2009 was slightly higher that than of the state and nation.

SOUND FINANCIAL POSITION SUPPORTED BY CONSERVATIVE MANAGEMENT

Moody's expects the city to maintain a sound financial position due to prudent management evidenced by relatively healthy reserves. Over the last five years, the city has maintained essentially balanced operations with the exceptions of fiscal 2004 and 2008. In fiscal 2004, the city drew down its reserves by $584,000 due to a one time expenditure of $623,770 to retire the city's unfunded pension liability. 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 a 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 funds did not cover the entire out-of-pocket amount spent by the city. Officials report that fiscal 2009 year-end results will likely reflect a slight deficit of up to $68,000, though a portion of this is expected to be offset by unspent contingency funds. The city had budgeted the use of about $68,500 in reserves in fiscal 2009 to meet operational costs. Notably, the city did not implement any staff reductions or furloughs. In fiscal 2010 the city's state shared revenue is expected to decline by $68,000, the city reduced its General Fund levy, and $75,000 of General Fund reserves were applied to the budget. Favorably, over $90,000 was budgeted as a contingency expenditure (equal to 1% of the budget) and, due to unused taxing margin year after year, the city can roll forward about $360,000. Although the city applies a modest amount of reserves to the budget each year, management expects to adhere to its General Fund balance policy of maintaining a minimum of 20% of the subsequent year's budget.

In addition to property taxes, which account for 26.8% of the city's fiscal 2008 operational revenue, 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 slightly through 2012 and remain stable thereafter. The city has chosen to use these funds to pay debt service and cash finance capital projects, in order to preserve structural fiscal balance between recurring revenues and recurring expenditures.

MANAGEABLE DEBT POSITION GIVEN SIGNIFICANT SUPPORT FROM NON-DEBT SERVICE LEVY SOURCES

Moody's expects the city's above average debt burden will remain manageable given significant support from non-debt service levy sources and rapid principal amortization of 100% in ten years. The city's direct debt burden is elevated at 3.1% of full valuation as is its overall debt burden of 4.4%. The city's general obligation debt service is heavily supported by the revenues from the LS Power co-generation facility and increment from the city's TIDs which together cover over 80% of the city's debt service. Management plans to issue a series of refinancing bonds later this year for savings but has no capital borrowing plans until 2011 or 2012.

KEY STATISTICS

2008 Population estimate: 14,291 (6.4% increase since 2000)

2009 Full value: $639 million

Estimated full value per capita: $44,717

Direct Debt: 3.1%

Overlapping Debt: 4.4%

Fiscal 2008 General Fund Balance: $2.3 million (26.6% of revenues)

Walworth County's unemployment rate (10/09): 7.8%

2000 Per capita income as a % of state: 65.7% (64.7% of US)

2000 Median family income as a % of state: 91.1% (96.3% of US)

Post-sale GOULT debt outstanding: $19.6 million

The principal methodology used in rating the current issue was Moody's General Obligation Bonds Issued by U.S. Local Governments, published in October 2009 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action was on July 28, 2009 when the A2 GOULT rating for the city was affirmed.

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