MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa3 to Whitewater, WI's $4.3M GO Corp. Purpose Bonds

Global Credit Research - 12 May 2014

Aa3 applies to $25M of post-sale GO 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	$4,280,000
Expected Sale Date	05/20/14
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, May 12, 2014 --Moody's Investors Services has assigned a Aa3 rating to the City of Whitewater, WI's $4.3 million General Obligation (GO) Corporate Purpose Bonds. Proceeds of the bonds will finance capital projects throughout the city. Debt service on the bonds is secured by the city's general obligation unlimited tax levy though approximately $1.6 million of the bonds are expected to be paid using revenues from the city's water, storm water, and sewer utilities. Moody's also maintains the Aa3 rating on the city's outstanding GO debt which totals $25 million post-sale.

SUMMARY RATING RATIONALE

The Aa3 rating reflects the city's stable local economy that is anchored by a state university, sound financial profile supported by adequate reserves, an elevated debt burden with no future borrowing plans, and a moderate pension burden.

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 20.6% of 2013 full valuation

DETAILED CREDIT DISCUSSION

LOCAL ECONOMY DOMINATED BY STATE UNIVERSITY; MIDWAY BETWEEN MADISON AND MILWAUKEE

We expect the city's tax base to remain stable due to the institutional presence provided by the University of Wisconsin at Whitewater and favorable operations at its other employers. The city is favorably located 45 miles southeast of Madison (city of) (GO Aaa stable) and 55 miles southwest of Milwaukee (Aa3 stable). 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 2,338 full and part-time employees and has an enrollment of approximately 12,000. In the fall of 2013, the campus closed enrollment due to hitting its enrollment capacity.

After three years of modest declines reflecting depreciation in the residential sector, the city's tax base grew by 1.3% in 2013 to $626 million. Looking forward, several expansion projects are underway and expected to add taxable valuation in the city. Trostel, a rubber products manufacturer, has plans to expand within the city and DP Electronics Recycling is building its flagship facility this summer in Whitewater. The tax base exhibits some concentration with the top 10 taxpayers accounting for 20.6% of 2013 full valuation. The city's largest tax payer is DLK Enterprises, which provides off-campus rental properties for students and comprised 7.7% of the city's full valuation in 2013. In addition to DLK Enterprises, three of the city's other top 10 taxpayers own residential rental properties. Generac is the city's second largest taxpayer and employer. The company expanded its Whitewater operations in the last few years and now employs 600 and accounts for 2.7% of valuation.

At 7.2% in January 2014, the unemployment rate in Walworth County (general obligation rated Aa1) was slightly above both the state and national rates of 6.7% and 7.0%, 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 (66.9% of the national average), the median family income is much stronger at 94.9% of the national average.

SOUND FINANCIAL POSITION WITH STABLE RESERVES

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 in almost every year. The exception was in 2008, when the city realized a $200,000 operating deficit due to snow and ice removal early in the year and flood clean up over the summer. In fiscal 2012 and 2013, the General Fund closed with very modest operating deficits of $14,000 and $12,000, respectively. The essentially balanced operations held the General Fund balance at $2.5 million, or 29% of General Fund revenues. While snow and ice removal expenditures were again higher than budget for fiscal 2013 and have already exceeded budget for 2014, management does not anticipate a draw on reserves for fiscal 2014. Instead, management expects the cost overruns to be absorbed by contingency funds in the budget or reductions in other expenditures throughout the year. Management's policy is to hold 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 51.5% of operating revenues, including the General Fund and Debt Service Fund, in fiscal 2013. The city receives a portion of its operational revenue from state shared utility revenue. Since the property valuation of a co-generation natural gas facility, constructed and operated by LS Power Funding Corporation (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 2014 payment is budgeted at $580,000 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 29.3% of the city's fiscal 2013 operating fund revenues.

ELEVATED DEBT BURDEN WITH SIGNIFICANT NON-LEVY SUPPORT; MODEST PENSION BURDEN

While the city's debt burden is elevated compared to state and national medians, we expect it to remain manageable given a lack of future borrowing plans and significant support from non-levy sources. The city's direct and overall debt burdens are 4.0% and 5.0%, respectively, compared to the much lower national median of 1.0% and 2.6%. General obligation debt service is supported by revenues from the city's water, sewer, and storm water utilities, as well as increment form the city's Tax Increment Districts. In fiscal 2013, debt service was the city's second largest operating expenditure and accounted for 24.3% of expenditures. Principal amortization is average with 70.9% of all debt retired within 10 years. The current issuance extends for 15 years and is in line with management's goal to shorten the city's debt amortization schedule to reduce interest expenses. The city has no additional plans for debt in fiscal 2014 and all of the city's debt is fixed rate with no exposure to interest rate swap agreements.

Costs associated with the city's exposure to the state multi-employer pension plan, the Wisconsin Retirement System (WRS), are expected to remain manageable. The city's contribution in fiscal 2013 totaled $680,000, or a modest 6.1% of operating expenditures, and was roughly equally split between the employer and employees' contributions. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was $5.9 million for fiscal 2012, or a low 0.51 times 2012 operating revenues, inclusive of the General Fund and Debt Service Funds. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported contribution information, but to improve comparability with other rated entities. We determined the city's share of liability for WRS in proportion to its contributions to the plan and covered payroll. The city does not offer other post employment benefits.

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

2013 Full value: $626 million

2013 Full value per capita: $43,148

2006-2010 Median Family Income (American Community Survey 5-Year Estimates): 94.9% of US

Fiscal 2013 available operating fund balance: 21.8% of operating revenues

Five-year change in available operating fund balance as % of operating revenues: 1.7%

Fiscal 2013 operating fund cash balance: 23.5% of operating revenues

Five-year change in operating fund net cash balance as % of operating revenues: 1.3%

Institutional Framework: A

Five-year average of operating revenues / operating expenditures: 1.0 times

Net direct debt / operating revenues: 1.85 times

Net direct debt as % of full value: 4.0%

Three-year average of Moody's adjusted net pension liability as % of full valuation: 0.31%

Three-year average of Moody's adjusted net pension liability / operating revenues: 0.59 times

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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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