

CREDIT OPINION

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Whitewater (City of) WI

Update to credit analysis

Summary

The City of Whitewater (Aa3) benefits from a stable economy supported by the institutional presence of the University of Wisconsin at Whitewater. The city has also maintained a healthy and stable financial position. These positive attributes are balanced by the small size of the city's tax base and the debt burden that is higher than that of peers. At the same time, the city carries a modest pension burden compared to other US local governments.

Credit strengths

- » Stable local economy supported by University of Wisconsin at Whitewater
- » Healthy and stable financial position

Credit challenges

- » Small tax base in comparison to peers
- » Above average debt burden

Rating outlook

Moody's does not generally assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Significant tax base growth
- » Sustained growth in fund balance and liquidity

Factors that could lead to a downgrade

- » Tax base contraction or downsizing of the local university, a major component of the city's economy
- » Sustained operational imbalance that degrades fund balance or liquidity
- » Material growth in the city's debt or pension burdens

Key indicators

Exhibit 1

Whitewater (City of) WI	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$617,822	\$625,861	\$625,192	\$640,750	\$645,399
Population	14,385	14,570	14,801	14,866	14,866
Full Value Per Capita	\$42,949	\$42,955	\$42,240	\$43,102	\$43,414
Median Family Income (% of US Median)	91.7%	89.4%	81.0%	78.1%	78.1%
Finances					
Operating Revenue (\$000)	\$11,537	\$11,347	\$10,930	\$10,750	\$11,520
Fund Balance (\$000)	\$2,957	\$3,141	\$2,986	\$2,873	\$2,706
Cash Balance (\$000)	\$2,936	\$3,336	\$3,228	\$3,297	\$2,994
Fund Balance as a % of Revenues	25.6%	27.7%	27.3%	26.7%	23.5%
Cash Balance as a % of Revenues	25.4%	29.4%	29.5%	30.7%	26.0%
Debt/Pensions					
Net Direct Debt (\$000)	\$22,202	\$20,703	\$21,490	\$18,455	\$17,133
3-Year Average of Moody's ANPL (\$000)	\$3,375	\$4,157	\$5,953	\$8,274	\$11,890
Net Direct Debt / Operating Revenues (x)	1.9x	1.8x	2.0x	1.7x	1.5x
Net Direct Debt / Full Value (%)	3.6%	3.3%	3.4%	2.9%	2.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.3x	0.4x	0.5x	0.8x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.5%	0.7%	1.0%	1.3%	1.8%

Source: Whitewater audited financial statements, Moody's Investors Service

Profile

Whitewater, WI is located 45 miles southeast of Madison and 55 miles southwest of Milwaukee and has an estimated population of 14,390. The city is home to the University of Wisconsin at Whitewater which, with an enrollment of 12,346, has a significant influence on the local economy.

Detailed credit considerations

Economy: small local economy supported by university presence

Whitewater's small local economy will remain stable over the long run due to the institutional presence of the University of Wisconsin at Whitewater. The city lies 45 miles southeast of [Madison](#) (Aaa stable) and 55 miles southwest of [Milwaukee](#) (A1 stable). The local economy is dominated by the UW-Whitewater campus and, while the university's property is tax-exempt and unavailable as a taxable resource, the university is the city's largest employer with 1,365 employees and a total enrollment of 12,346 as of 2016. City officials report a gradual increase in development activities within the city, particularly within the industrial sector. A small business incubator created by the university has encouraged business creation and several existing industrial entities are expanding facilities.

The city's total equalized valuation grew at an average annual rate of 1% over the past five years, but 2017 valuation remains small at \$647 million. Due to the combination of student housing and industrial entities within the city, the tax base is fairly concentrated with the top ten taxpayers accounting for 22% of total valuation. The largest taxpayer, DLK Rentals, owns a variety of residential properties throughout the city and accounts for 8% of the total valuation.

As is common among cities with a large university presence, Whitewater's resident income metrics are below average. The median family income within the city is 78% of the national level and valuation per capita is low at \$44,553. Walworth County unemployment is low at 2.7% as of December 2017.

Financial operations and reserves: healthy and stable financial position

The city's financial position is healthy and is expected to remain stable over the long run. Following a slight general fund deficit in the fiscal year ending December 31, 2016, the city's available general fund balance remained healthy at \$2.2 million or 24% of revenue. The

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available operating funds balance, inclusive of the debt service fund, is also healthy at 24% of revenue. Unaudited financial information provided for fiscal 2017 suggests that the city achieved a small surplus. The city adopted a balanced budget for fiscal 2018 and officials expect break even operations on the year. Over the long run, the city does not plan to draw on reserves.

State aid made up 52% of total revenue in 2016. This includes approximately \$500,000 in state shared utility revenue due to the presence of a natural gas power plant, which is not included in the city's tax base but pays tax on gross receipts to the state which then makes an annual payment to the city. Property taxes accounted for 29% of general fund revenue as of fiscal 2016.

LIQUIDITY

Net cash and equivalents are also healthy as of the fiscal 2016 audit and similar to the available fund balance. General fund net cash was \$2.5 million or 27% of revenue and operating funds net cash was \$3 million or 26% of revenue. Liquidity is expected to increase modestly for fiscal 2017 based on preliminary operating results and the city is not planning any draws on liquidity in the coming years.

Debt and pensions: above average debt burden but low pension burden

Whitewater's debt burden is above average but expected to decline over the next several years based on current borrowing plans. The city's net direct general obligation debt burden is equivalent to 2.7% of 2017 valuation, exclusive of debt supported by the utility funds. This is above the median for cities at the Aa3 rating level nationally, though roughly in line with peers within Wisconsin. Legally, the city's GO debt is supported solely by ad valorem tax revenues however in practice Whitewater supports debt service with water, wastewater, and stormwater utility revenue. City officials plan on issuing an additional \$600,000 in privately placed GO debt later in 2018, although larger borrowing is not anticipated until 2020.

DEBT STRUCTURE

All of the city's debt is fixed rate and 67% of GO principal is scheduled to mature within the next ten years.

DEBT-RELATED DERIVATIVES

The city is not party to any debt-related derivative agreements.

PENSIONS AND OPEB

Whitewater participates in the Wisconsin Retirement System (WRS), a statewide cost sharing plan. The city's contribution to the plan was \$397,000 in fiscal 2016, which represents a low 3.5% of operating revenue. This contribution was 98% of the Moody's determined "tread water" contribution, the contribution at which the reported unfunded liability would remain stable if other plan actuarial assumptions hold. The three-year average Moody's adjusted net pension liability (ANPL) is 1.03x operating revenue and 1.8% of valuation, both ratios modest compared to US local government peers.

Moody's ANPL reflects the use of a market-based interest rate to value accrued liabilities. The adjustment is not intended to replace the district's reported contribution information, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, government, and other entities across the globe, please visit Moody's on Pensions at www.moody.com/pensions.

Management and governance: moderate Institutional Framework

Wisconsin cities have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue source, property tax revenue, is subject to a cap that restricts cities from increasing their operating property tax levies except to capture amounts represented by net new construction growth. Revenues and expenditures tend to be predictable. Across the sector, fixed and mandated costs are generally high. Expenditures are a bit flexible, as collective bargaining is allowed for public safety employees but is curbed for non-public safety employees.

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