

RatingsDirect®

Summary:

Whitewater, Wisconsin; General Obligation

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US\$5.42 mil GO corp purp bnds ser 2020A dtd 07/08/2020 due 06/01/2040

Long Term Rating

A+/Stable

New

Rating Action

S&P Global Ratings assigned its 'A+' long-term rating on the city of Whitewater, Wis.' anticipated \$5.4 million series 2020A general obligation (GO) corporate purpose bonds. The outlook is stable.

The series 2020A GO bonds are secured by the city's unlimited tax GO pledge. Proceeds from the bonds will be used for street improvement projects and to refund existing debt.

Credit overview

While the city has in recent years experienced positive financial operations, the COVID-19 pandemic and related economic downturn will lead to higher unemployment and create economic challenges, potentially limiting future economic growth. We view the city's reliance on the local university, the University of Wisconsin-Whitewater, as stabilizing institutional presence, and a positive credit factor. Effectively managing the budgetary challenges associated with the pandemic and recession will be necessary to avoid weakened budgetary performance and a material weakening in credit quality.

S&P Global Economics forecasts that the COVID-19 pandemic has caused the national economy to fall into a recession (see "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020, on RatingsDirect), which we expect will cause a near-term economic slowdown at the local level. Therefore, our view of the credit risks to the city are centered on the more immediate budget effects over the next six-to-12 months. We acknowledge that Whitewater could experience financial pressures similar to those we have seen in past recessions, such as lower property tax receipts and declines in state aid, which could result in weakened budgetary performance. Given the city's very strong reserves, we believe it has adequate resources to address potential fiscal pressures over the next six-to-12 months.

The 'A+' GO rating reflects the following characteristics of the city:

- Weak economy, with projected per capita effective buying income at 52.6% and market value per capita of \$48,643, that is gaining advantage from a local stabilizing institutional influence;
- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2019, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 40% of operating expenditures;

- Very strong liquidity, with total government available cash at 105.5% of total governmental fund expenditures and 6.8x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 15.5% of expenditures and net direct debt that is 138.6% of total governmental fund revenue, but rapid amortization, with 65.9% of debt scheduled to be retired in 10 years; and
- Adequate institutional framework score.

Environmental, social, and governance factors (ESG)

The rating incorporates our view of the health and safety risks posed by the COVID-19 pandemic, which we consider a social risk factor. However, the COVID-19 pandemic is not affecting the city more than the sector standard. Another social risk possibly affecting the city involves its local economy being reliant upon the University of Wisconsin-Whitewater, which may experience an extended period of remote learning because of COVID_19, potentially weakening the local economy. We analyzed the city's other environmental, social, and governmental risks relative to its economy, management, financial measures, and debt-and-liability profile, and determined all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

In the event the city experiences weakened fiscal performance as a result of the COVID-19 pandemic and recession, or otherwise, causing a material deterioration in reserves, the rating could be lowered.

Upside scenario

If the city were to achieve sustained improvement in its economic metrics, while maintaining or improving its other credit factors, a higher rating is possible. Alternatively, if the city were to experience a material improvement in its weak debt profile, a higher rating is possible.

Credit Opinion

Weak economy, with below-average economic metrics, though the University of Wisconsin-Whitewater is a stabilizing institutional influence on the city

We consider Whitewater's economy weak. The city, with an estimated population of 14,327, is located in Jefferson and Walworth counties. The city benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 52.6% of the national level and per capita market value of \$48,643. Overall, the city's market value grew by 4.6% over the past year to \$696.9 million in 2019. The weight-averaged unemployment rate of the counties was 3.3% in 2019.

Whitewater is located approximately 50 miles away from both Madison and Milwaukee in southeast Wisconsin, and is home to the University of Wisconsin-Whitewater, the city's largest employer and a stabilizing institutional influence on the city. We note that the city's incomes are well below average because of the university's large student population and understate Whitewater's economic strength.

As with other cities in the state and the nation in response to the COVID-19 pandemic, economic activity in the city was significantly curtailed beginning in March 2020 with the state-mandated closure of all non-essential businesses, which has since been rescinded by the Wisconsin Supreme Court. Nevertheless, we anticipate that the city's unemployment rate will increase significantly from levels reached in the past few years, which was at historic lows. In addition, given the city's reliance on UW-Whitewater as economic engine for growth, the potential exists for an extended period of remote learning or a hybrid remote-in person learning environment, which could depress economic activity in the city. Overall, depending on the duration and effect of the pandemic and recession, our view of the city's economy may weaken.

Strong management, with robust budgetary reporting and long-term capital planning practices

We view the city's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

In developing its budget, the city obtains estimates with regard to state shared revenue and consults with its financial advisor in formulating its annual assumptions. In addition, the city provides detailed monthly budget-to-actual updates to its council and typically amends its budget at least once a year. While the city prepares a very limited long-term financial forecast as part of its annual budget, it does maintain a comprehensive, long-term capital improvement plan that extends 10 years, that is updated annually with revenue sources identified. The city also has adopted its own investment policy, and provides monthly updates regarding investment performance. While the city has a very limited debt management policy, it does maintain a reserve policy that requires it to keep 20% of expenditures in its general fund, with which it is in compliance.

Adequate budgetary performance, reflecting heightening operational risk associated with the recession and COVID-19 effects

Whitewater's budgetary performance is adequate in our opinion. The city had operating surpluses of 10.6% of expenditures in the general fund and of 11.0% across all governmental funds in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2019 (year-ended Dec. 31) results in the near term.

In analyzing the city's finances, we have adjusted recurring transfers into revenues and expenditures to provide a more complete picture of its budgetary performance. In fiscal 2019, the city was able to outperform its budget through positive variances in both general fund revenue and expenditures as compared to budget, including a \$170,000 favorable result in interest income revenue. The city's general fund revenue is comprised of primarily state shared revenue (53.6%), followed by property taxes (36.3%).

With regard to fiscal 2020, the city's original budget was balanced, and in response to COVID-19, there have been marginal increases in expenditures to date for personal protective equipment (PPE) of less than \$10,000. Similarly, for revenue, the city's receipts have been stable to date, with no material reductions in state and property tax revenue, the city's two major revenue sources.

Although budgetary performance has generated positive results in the general fund the past two fiscal years, we believe the uncertainty resulting from the unknown duration of the pandemic and economic challenges stemming from

the recession could pose operational risk in the near term for the city, leading to a greater likelihood of a weaker financial performance than existed previously.

While the specific budgetary impact of the COVID-19 pandemic and accompanying recession is uncertain at this stage, the potential exists for weaker budgetary performance.

Very strong budgetary flexibility, supported by a minimum reserve policy

Whitewater's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 40% of operating expenditures, or \$3.4 million.

While the city's available fund balance may decline as a result of the fiscal effects of the COVID-19 pandemic and recession, we expect management to maintain a similar level of budgetary flexibility during the next few years. The city has a fund balance policy requiring it to maintain at least 20% of expenditures in its general fund. We expect the city's budgetary flexibility to remain very strong during the next two years.

Very strong liquidity, with strong access to external liquidity In our opinion, Whitewater's liquidity is very strong, with total government available cash at 105.5% of total governmental fund expenditures and 6.8x governmental debt service in 2019. In our view, the city has strong access to external liquidity, if necessary.

We consider the city's access to external liquidity strong as it has issued GO bonds within the last 20 years. Despite leeway allowed by state statute, we do not consider the city's investments to be aggressive since most of the city's funds are held in bank accounts, U.S. government treasuries and agencies, and the state's local government investment pool. The city is not a party to any direct purchase or private placement debt. We view the city's liquidity as providing sufficient cushion in light of expected revenue declines and do not anticipate our view of its liquidity position to worsen in the next few years.

Weak debt and contingent liability profile, with manageable pension obligations

In our view, Whitewater's debt and contingent liability profile is weak. Total governmental fund debt service is 15.5% of total governmental fund expenditures, and net direct debt is 138.6% of total governmental fund revenue.

Approximately 65.9% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The city does not have any major projects on the horizon, apart from fairly routine capital maintenance projects in its capital improvement plan. To the extent that the city will issue additional debt for these projects, we understand that the city will not exceed its current level of borrowing.

Whitewater's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 3.7% of total governmental fund expenditures in 2019. The city made its full annual required pension contribution in 2019.

The city's pension costs are modest as a share of total spending and are not likely to accelerate significantly in the medium term, especially given the pension plan's strong funded status.

The city participates in the Wisconsin Retirement System (WRS), a multiple-employer, defined-benefit pension plan that has in recent years routinely been among the best-funded multiple-employer pension plans in the country. WRS

was 96.5% funded (as of Dec. 31, 2018), with the city having a proportionate share of the plan's net pension liability of \$1.4 million.

Contributions to WRS are actuarially based, and the city funds 100% of its required contribution each year. The plan investment rate of return assumption was lowered from 7.2% to 7.0% in late 2018. While the revised return assumption exceeds our 6.5% guideline, exposure to market volatility is mitigated because the plan employs a shared risk model where investment performance fluctuations are offset by changes in active employee contributions and in adjustments in benefit payments. Because of these features, we expect contributions will remain relatively stable, and, given the plan's strong funded status and strong contribution practices, we expect contributions will remain affordable.

Adequate institutional framework

The institutional framework score for Wisconsin cities and villages with a population of less than 25,000 is adequate.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2019 Update Of Institutional Framework For U.S. Local Governments

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