MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Sun Prairie, WI's $3.9M GO Prom. Notes, Ser. 2015A

Global Credit Research - 11 Jun 2015

Aa2 applies to $43.4M post-sale GO debt

SUN PRAIRIE (CITY OF) WI
Cities (including Towns, Villages and Townships)
WI

Moody's Rating

ISSUE	RATING
General Obligation Promissory Notes, Series 2015A	Aa2

Sale Amount	$3,865,000
Expected Sale Date	06/16/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, June 11, 2015 --Moody's Investors Service assigns Aa2 to the City of Sun Prairie, WI's $3.9 million General Obligation (GO) Promissory Notes, Series 2015A. Moody's also maintains the Aa2 rating on the city's previously issued GO debt and the A1 rating on the city's outstanding lease revenue debt. Post-sale, the city will have $43.4 million of GO debt outstanding and $17.6 million of lease revenue debt outstanding.

SUMMARY RATING RATIONALE

The Aa2 GO rating reflects the city's moderately-sized tax base located adjacent to the city of Madison (Aaa stable), above average demographic profile, sound financial operations and healthy reserve levels, elevated debt burden with rapid principal amortization, and modest exposure to unfunded pension liabilities.

The A1 lease revenue rating reflects the credit characteristics inherent in the city's Aa2 GO rating; the annual risk of non-appropriation by the city for lease payments; and the assets pledged (various economic development projects in the city's Tax Increment Districts) in the lease financings, which we consider non-essential to municipal operations.

OUTLOOK

Outlooks are generally not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Moderation of the city's debt burden and fixed costs

- Significant growth to the city's tax base

WHAT COULD MAKE THE RATING GO DOWN

- Further leveraging of the tax base and/or increase in fixed costs

- Tax base erosion leading to valuation figures below similarly rated entities

- Material declines in reserves and liquidity

STRENGTHS

- Above average demographic profile

- Favorable location adjacent to the city of Madison, home to the capital of Wisconsin (Aa2 positive) and the flagship campus of the University of Wisconsin (not rated)

- Stable finances with healthy General Fund reserves

CHALLENGE

- Elevated debt burden

RECENT DEVELOPMENTS

Recent developments have been incorporated into the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: DIVERSE TAX BASE BENEFITS FROM PROXIMITY TO MADISON

We expect the city's tax base to remain stable due to ongoing development and the city's favorable location near Madison which provides city residents with ample employment opportunities. Located in central Dane County (Aa1 stable) 10 miles northeast of downtown Madison, the city encompasses approximately 12 square miles. After three years of valuation declines, the city's $2.4 billion tax base grew modestly in both 2013 and 2014. Inclusive of the increases, the tax base has declined at an average annual rate of 1.5% since 2009.

The city is mostly residential and many residents commute to Madison for work. However, the city also has a sizable commercial presence, which the city is trying to bolster through its use of tax increment financing (TIF) districts. In late April, a Cabela's store and Marcus Theater movie theater complex opened on the west side of the city and are expected to spur further development in the area. The city has exhibited sustained population growth with a 33% increase between 1990 and 2000 followed by 44% increase from 2000 to 2010, according to census figures. The city's favorable location near Madison, availability of developable land, and recently completed transportation infrastructure upgrades have all contributed to this growth. A large portion of the city remains available for residential development. The construction of single family homes increased substantially in 2013 and 2014, growing to 134 new homes in 2014 from 58 in 2012. Overall, the Madison economy benefits from the stability of two significant institutions: the University of Wisconsin's main campus, which enrolls 42,000 students, and the state capital. City wealth levels exceed state indices and Sun Prairie's March 2015 unemployment rate of 3.7% was below state and national rates of 5.4% and 5.6%, for the same time period, respectively. The city's demographic profile is above average with a median family income at 122.5% of the US, as estimated by the 2008-2012 American Community Survey.

FINANCIAL OPERATIONS AND RESERVES: SOUND FINANCIAL OPERATIONS CHARACTERIZED BY HEALTHY RESERVES

We expect the city's financial profile will remain sound as a result of healthy reserve levels and conservative budgeting practices. Management has added to General Fund reserves in each of the last four fiscal years. In fiscal 2013, the city budgeted for a $354,000 draw on reserves; however, higher than budgeted licenses and permit fees and lower than budgeted building maintenance and IT expenditures led to an $333,000 operating surplus that increase the total General Fund balance to $9.0 million, or a healthy 41.8% of revenues. Of the total General Fund balance, $2.3 million was classified as non-spendable at the end of fiscal 2013, including $1.9 million in advances to TIF #8, #9, and #10. The city also assigns a portion of its General Fund Balance for various future program expenditures and capital purchases. At the end of fiscal 2013, the city's unassigned General Fund Balance was $3.2 million, or 14.8% of revenues, which is within the city's fund balance policy of maintaining its unassigned fund balance between 12% and 18% of revenues.

While audited results are not yet available for fiscal 2014, management reports that the total General Fund balance increased by $400,000 to $9.4 million and the unassigned fund balance grew by $300,000. In fiscal 2014, the advances to the TIFs grew by a modest $60,000. The city expects to repay the advances as the TIF districts generate tax increment revenue in excess of their annual debt service, but there is no schedule of repayment yet. For fiscal 2015, the city increased its tax levy modestly due to net new construction in the tax base. Management reported that, through the first quarter, revenues and expenditures have been tracking close to budgeted levels. Property taxes were the city's largest operating revenue source and accounted for 68.1% of operating revenues in fiscal 2013. Intergovernmental aid was the city's second largest revenue source and comprised 13.5% of fiscal

2013 operating revenues.

Liquidity

The city's liquidity is healthy. At the close of fiscal 2013, the city's General Fund held $7.4 million, or a healthy 34.3% of revenues.

DEBT AND PENSIONS: ABOVE AVERAGE NET DIRECT DEBT BURDEN AND HIGH OVERALL DEBT BURDEN

At 2.4% of full value and 1.8 times operating revenues, the city's direct debt burden is above average. Inclusive of borrowing by overlapping entities, including the Sun Prairie Area School District (Aa2), the city's overall debt burden is high at 7.1% of full value. In fiscal 2013, debt service was the city's second highest operating expenditure and accounted for 23.8% of expenditures.

Debt Structure

All of the city's debt is long-term and fixed rate. Principal amortization of the city's GO debt is quick with 96.7% of debt retired within 10 years. In addition to the city's $43.4 million of GO debt, the city has $17.6 million of lease revenue debt outstanding. The lease revenue debt was issued by the Community Development Authority of Sun Prairie and secured by lease payments from the city. The bonds were issued to support development in the city's tax increment districts (TIDs) #6, #7, and #8 and are paid using tax increment revenue.

Debt-Related Derivatives

The city has no exposure to any debt related derivatives.

Pensions and OPEB

The city has a favorable employee pension burden, based on unfunded liabilities for its participation in the Wisconsin Retirement System (WRS), a multiple-employer cost-sharing plan administered by the state, and the City of Sun Prairie Water and Light Commission Plan, a single-employer plan administered by the city. The city recently adjusted the Water and Light Commission Plan such that all employees hired after 2013 will be part of a defined contribution plan rather than the defined benefit plan, mitigating future liabilities. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was $2.0 million for fiscal 2013. In the three years through fiscal 2013, the district's ANPL has averaged a very low 0.14 times annual operating revenue and 0.2% of full valuation. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended replace the district's reported contribution information, but to improve comparability with other rated entities. We determined the district's share of liability for WRS in proportion to its contributions to the plan and covered payroll.

The city provides health care insurance for certain retirees and their spouses. Benefit provisions are established through collective bargaining agreements. As of January 1, 2012, the date of the most recent actuarial valuation, the city's OPEB unfunded actuarial accrued liability totaled $125,000.

MANAGEMENT AND GOVERNANCE: MODERATE INSTITUTIONAL FRAMEWORK WITH CONSERVATIVE BUDGETING PRACTICES

Wisconsin cities have an institutional framework score of "A", or moderate. Cities operate under strict levy limits. Unlike counties, cities cannot implement a sales tax to supplement property tax revenue. Wisconsin's Act 10 legislation, which was enacted in 2011, provides counties with considerable expenditure flexibility as it curbs the bargaining power of non-public safety government employees. Pensions are well-funded. Many Wisconsin cities aggressively use tax increment district (TID) financing, which exposes them to economic development-related risks. For example, many cities provide cash flow support to fledgling TIDs.

Sun Prairie management employs conservative budgeting techniques that have led to an increase in the available General Fund balance in each of the last four fiscal years.

KEY STATISTICS

- 2014 Full value: $2.4 billion

- Estimated full value per capita: $82,200

- Median family income as a % of the US (2008-2012 American Community Survey): 122.5%

- Fiscal 2013 available operating fund balance as a % of revenues: 20.7%

- Five-year dollar change in fund balance as a % of revenues: 5.7%

- Fiscal 2013 cash balance as a % of revenues: 22.9%

- Five-year dollar change in cash balance as a % of revenues: -0.2%

- Institutional framework: "A"

- Net direct debt / full value: 2.4%

- Net direct debt / operating revenues: 1.8x

- Three-year average of Moody's ANPL / full value: 0.2%

- Three-year average of Moody's ANPL / operating revenues: 0.1x

OBLIGOR PROFILE

The city of Sun Prairie is located adjacent to Madison and covers 12 square miles. The city's 2010 Census population was 29,364.

LEGAL SECURITY

Debt service on Sun Prairie's GO bonds, including the Series 2015A notes, is secured by the city's GO unlimited tax pledge to levy a designated property tax levy is not limited by rate or amount.

Debt service on Sun Prairie's lease revenue bonds is secured by the city's pledge to make lease payments, subject to annual appropriation, to the Community Development Authority of Sun Prairie.

USE OF PROCEEDS

Of the note proceeds, $395,000 will refund for the outstanding maturities of the city's GO Public Safety Bonds, Series 2005A for estimated savings. The remainder of the note proceeds will finance street improvement projects, storm water management projects, waste water system projects and equipment acquisition.

RATING METHODOLOGY

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.

The following information supplements Disclosure 10 ("Information Relating to Conflicts of Interest as required by Paragraph (a)(1)(ii)(J) of SEC Rule 17g-7") in the regulatory disclosures made at the ratings tab on the issuer/entity page on www.moodys.com for each credit rating:

Moody's was not paid for services other than determining a credit rating in the most recently ended fiscal year by the person that paid Moody's to determine this credit rating.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Kathryn Gregory
Lead Analyst
Public Finance Group
Moody's Investors Service

Rachel Cortez
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

MOODY'S
INVESTORS SERVICE

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

For Japan only: MOODY'S Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of MOODY'S Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.
MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.