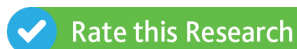


CREDIT OPINION

15 July 2020



Contacts

Benjamin J VanMetre +1.312.706.9951
 AVP-Analyst
 ben.vanmetre@moodys.com

David Levett +1.312.706.9990
 VP-Senior Analyst
 david.levett@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Sun Prairie (City of) WI

Update to credit analysis

Summary

[Sun Prairie, WI's](#) (Aa2) credit attributes include a large tax base, located within commuting distance of [Madison WI](#), (Aaa stable), sound financial operations with healthy reserves and a modest pension burden. These credit attributes are balanced against an above average debt burden and limited revenue raising ability.

The coronavirus outbreak is a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for the city. However, the situation surrounding Coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the city changes, we will update our opinion at that time.

Credit strengths

- » Large tax base within commuting distance of Madison, the [Wisconsin](#) (Aa1 stable) state capital and the flagship campus of the University of Wisconsin
- » Solid financial operations supported by healthy reserves
- » Modest pension burden

Credit challenges

- » Some exposure to underperforming tax increment districts (TID)
- » Limited revenue raising flexibility because of state imposed levy limits

Rating outlook

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

Factors that could lead to an upgrade

- » Continued tax base growth
- » Improved reserves and liquidity
- » Moderation of debt and fixed cost burdens

Factors that could lead to a downgrade

- » Tax base declines or weakening of resident income levels
- » Declines in operating reserves or liquidity

» Growth in debt burden or fixed costs

Key indicators

Exhibit 1

Sun Prairie (City of) WI	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$2,566,184	\$2,772,246	\$2,984,708	\$3,310,112	\$3,634,094
Population	31,174	31,721	32,112	32,757	32,757
Full Value Per Capita	\$82,318	\$87,395	\$92,947	\$101,051	\$110,941
Median Family Income (% of US Median)	119.6%	117.5%	116.9%	118.1%	118.1%
Finances					
Operating Revenue (\$000)	\$31,459	\$32,211	\$33,738	\$33,800	\$38,540
Fund Balance (\$000)	\$11,199	\$12,031	\$13,564	\$12,059	\$13,972
Cash Balance (\$000)	\$10,009	\$16,085	\$17,916	\$17,180	\$18,613
Fund Balance as a % of Revenues	35.6%	37.3%	40.2%	35.7%	36.3%
Cash Balance as a % of Revenues	31.8%	49.9%	53.1%	50.8%	48.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$70,087	\$66,111	\$60,715	\$66,046	\$75,740
3-Year Average of Moody's ANPL (\$000)	\$8,003	\$11,538	\$12,809	\$16,347	\$21,021
Net Direct Debt / Full Value (%)	2.7%	2.4%	2.0%	2.0%	2.1%
Net Direct Debt / Operating Revenues (x)	2.2x	2.1x	1.8x	2.0x	2.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.3%	0.4%	0.4%	0.5%	0.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.3x	0.4x	0.4x	0.5x	0.5x

Source: US Census Bureau, audited financial statements, Moody's Investors Service

Profile

The city of Sun Prairie is located approximately 10 miles northeast of Madison and covers 12 square miles. The city serves about 33,000 residents.

Detailed credit considerations

Economy and tax Base: large, affluent tax base northeast of Madison

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, healthcare, retail, and oil and gas could suffer particularly severe impacts. Given its location within commuting distance to employment opportunities in Madison, home to the state capital and the flagship campus of the University of Wisconsin, the local employment base has higher concentration of employment in government and related enterprises. As a result, officials report generally stable operations and collections among larger employers and taxpayers. Still, Dane County has not been immune to the sharp spike in unemployment rates that has affected the nation with an unemployment rate of 12% as of April 2020. However, the rate was somewhat better than the state's rate (14.6%) and the national rate (14.4%).

Officials report some continued development underway within the city. However, we expect the city's sizable commercial component could experience some volatility in assessments as a result of the economic downturn. Commercial properties comprise 28% of valuations. Residential properties, which we expect will be more stable comprises 69%. Going into the current economic slowdown, the tax base had six consecutive years of annual growth and reached \$3.6 billion in 2019. The city's median family income is 118% of the nation figure.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Financial operations and reserves: healthy reserves; some TIDs require general fund support

The city's financial profile is likely to remain sound given the currently healthy reserves coupled with the relatively limited financial impact of the coronavirus pandemic. Current fiscal 2020 estimates reflect balanced operations. The city reports that unbudgeted expenditures related to the coronavirus pandemic have been very modest, totaling less than \$100,000. At the start of the pandemic, management was forecasting a roughly \$470,000 decline in revenue generated by building permits, ambulance fees and public accommodation revenue. To offset the revenue decline, the city enacted expenditure adjustments that included controlling vacant positions, reducing spending on contractual services and eliminating some summer programming. Favorably, revenue is tracking better than the original expectations and the city expects to close the fiscal year balanced. Management is currently in the process of developing the fiscal 2021 budget.

The city had several years of operating surpluses before the current economic slowdown. The combined available fund balance totaled about \$14 million at the close of fiscal 2019, equal to about 36% of revenue across the general fund, special revenue funds and debt service fund. The city has about \$3.8 million in non-spendable fund balance, which includes \$2.8 million in advances to various TIDs. TID #8 accounted for a majority of the interfund advances at \$1.4 million. The total combined general fund advances to TIDs remained relatively flat between fiscal 2018 and 2019.

LIQUIDITY

Net cash across city operating funds totaled more than \$18 million, or 48% of operating revenue, at the close of fiscal 2019.

Debt and pensions: above average debt burden; modest pension burden

The city's debt burden is above average and its pension burden is modest. Inclusive of the 2020A GOULT notes, the city's net direct debt is equal to 2.1% of full value or 1.9x operating revenue. The city's overlapping debt burden totals almost 8% of full value and is largely because of the significant borrowing of [Sun Prairie Area School District](#) (Aa3). Given the current economic environment, the city has scaled back its borrowing plans a bit and intends to keep annual issuance about \$5.5 million.

Fixed costs, inclusive of debt service, other post-employment benefits (OPEB) and annual pension contributions, were equal to about 20% of fiscal 2019 operating revenue.

DEBT STRUCTURE

All of the city's debt is fixed rate and long-term. Amortization of existing debt is average with about 80% of principal set to be retired over the next 10 years.

The city's general obligation unlimited tax (GOULT) debt is secured by its general obligation unlimited tax pledge which benefits from a dedicated property tax levy not limited by rate or amount.

The city's lease revenue bonds are secured by pledged rental payments by the city, which are subject to annual appropriation.

DEBT-RELATED DERIVATIVES

The city has no exposure to debt related derivatives.

PENSIONS AND OPEB

The city participates in the Wisconsin Retirement System (WRS), a statewide cost-sharing plan. Contributions are determined using a level contribution actuarial method in an effort to keep employer and employee contribution rates at a level percentage of payroll over time, and are set at 100% of the plan's funding requirement. As a result, WRS remains one of the best-funded public employee retirement systems in the country, with statewide employer contributions to WRS in 2018 totaling more than 150% of the amount needed to tread water.

The city's three year adjusted net pension liability (ANPL) totals about \$21 million, equal to 0.5x operating revenue and 0.6% of full value. Moody's ANPL reflects the use of a market-based discount rate to value pension liabilities rather than the assumed rate of investment return on plan assets. In comparison, the reported net pension liability, based on the plan's 7.0% discount rate, was about \$2 million in fiscal 2019.

Sun Prairie's other post-employment benefits (OPEB) liability reflects a single-employer defined benefit healthcare plan. The city's net OPEB liability totals less than \$50,000.

ESG considerations

ENVIRONMENTAL

Environmental factors have not had a material impact on the city's credit profile. According to data of Moody's affiliate, Four Twenty Seven, Dane County has notable exposure to extreme rainfall and has relatively limited exposure to several other various environmental risks going forward.

SOCIAL

Social factors are a key consideration for the city. Resident income levels are average and the median age of the city's residents is on par with state and national figures.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for the city. However, the situation surrounding Coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the city changes, we will update our opinion at that time.

GOVERNANCE

Wisconsin cities have an Institutional Framework score of "A," which is moderate. 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. Revenue and expenditures tend to be predictable. Across the sector, fixed and mandated costs are generally high. Many cities use tax increment districts to attract economic development, often issuing debt to fund initial infrastructure in undeveloped areas. While tax increment districts are ultimately expected to generate revenue sufficient to cover initial city outlay, cities are exposed to economic downturns which could halt development.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Sun Prairie (City of) WI

Scorecard Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$3,634,094	Aa
Full Value Per Capita	\$110,941	Aa
Median Family Income (% of US Median)	118.1%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	36.3%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	9.4%	A
Cash Balance as a % of Revenues	48.3%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	20.0%	Aa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.1%	A
Net Direct Debt / Operating Revenues (x)	1.9x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.6%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.5x	Aa
Scorecard-Indicated Outcome		Aa2
Assigned Rating		Aa2

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: US Census Bureau, Moody's Investors Service, audited financial statements

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Contacts

Benjamin J VanMetre
AVP-Analyst
ben.vanmetre@moodys.com

+1.312.706.9951

David Levett
VP-Senior Analyst
david.levett@moodys.com

+1.312.706.9990

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