

CREDIT OPINION

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New Issue

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Contacts

Jennifer Card 312-706-9983
 Bernhardt
 Analyst
jennifer.card@moodys.com

Tatiana Killen 312-706-9972
 AVP-Analyst
tatiana.killen@moodys.com

Sun Prairie (City of), WI

New Issue - Moody's Assigns Aa2 to Sun Prairie, WI's GO Notes

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to Sun Prairie, WI's \$5 million General Obligation Promissory Notes, Series 2017A. Moody's maintains the Aa2 rating on the city's previously issued general obligation unlimited tax (GOULT) debt. Post-sale, the city will have \$54 million in GOULT debt.

The Aa2 rating on the city's GOULT debt reflects the city's large tax base located adjacent to the [city of Madison](#) (Aaa stable); above average resident income indices; sound financial operations and healthy reserve levels; elevated debt burden and manageable unfunded pension liabilities.

Credit Strengths

- » Large tax base adjacent to the City of Madison
- » Sound financial operations and healthy reserve levels

Credit Challenges

- » Elevated direct and overall debt burden
- » Above average fixed costs
- » Some exposure to underperforming tax increment districts (TID)

Rating Outlook

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

Factors that Could Lead to an Upgrade

- » Significant tax base growth and improvement of resident income levels
- » Moderation of the city's debt burden

Factors that Could Lead to a Downgrade

- » Tax base deterioration or weakening of resident income indices
- » Growth of the city's debt burden
- » Reduced operating fund reserve levels or available liquidity

Key Indicators

Exhibit 1

Sun Prairie (City of) WI	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 2,455,734	\$ 2,353,843	\$ 2,368,669	\$ 2,413,489	\$ 2,566,184
Full Value Per Capita	\$ 85,955	\$ 80,407	\$ 79,273	\$ 78,870	\$ 82,318
Median Family Income (% of US Median)	123.8%	122.5%	125.4%	117.5%	119.6%
Finances					
Operating Revenue (\$000)	\$ 28,931	\$ 36,700	\$ 32,171	\$ 28,590	\$ 28,291
Fund Balance as a % of Revenues	20.2%	17.8%	20.8%	23.9%	25.9%
Cash Balance as a % of Revenues	12.8%	16.0%	23.5%	29.3%	22.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 70,658	\$ 67,941	\$ 67,254	\$ 76,969	\$ 70,711
Net Direct Debt / Operating Revenues (x)	2.4x	1.9x	2.1x	2.7x	2.5x
Net Direct Debt / Full Value (%)	2.9%	2.9%	2.8%	3.2%	2.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.1x	0.1x	0.2x	0.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.1%	0.2%	0.2%	0.3%

The table above reflects data through the close of fiscal 2015. Post sale, the city will have \$54 million of GO debt outstanding.

Source: Moody's Investors Service; Audited Financial Statements; US Census Bureau

Detailed Rating Considerations

Economy and Tax Base: Large Tax Base Near Madison Experiencing Continued Growth

The city's tax base is expected to remain a credit strength given its favorable location near Madison and continued economic development activity. Located in central [Dane County](#) (Aa1 stable) 10 miles northeast of downtown Madison, the city encompasses approximately 12 square miles. After several years of valuation decline, coinciding with the most recent economic downturn, the city's equalized valuation has grown each of the last four years and totaled \$2.8 billion as of assessment year 2016. Recent tax base growth has been driven by residential, commercial and industrial development activity. Residential development has been particularly strong, as residential permits have increased every year dating back to at least 2012. Residential development is expected to continue given a tight real-estate market and significant land available for future development.

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. Estimates from 2016 reflect an 11% increase from 2010 to 32,613. Resident income levels are above average and are estimated at 119.6% of the national median. At 2.5% as of March 2017, the city's unemployment rate remains well below state and national figures of 3.7% and 4.6%, respectively.

Financial Operations and Reserves: Stable Financial Profile Supported By Healthy Reserves

The city's financial profile is expected to remain stable given healthy reserve levels and prudent management. The city closed fiscal 2015 with a General Fund surplus of \$1.0 million, increasing total General Fund reserves to \$10.5 million and 47% of General Fund revenues. Of the total General Fund balance, \$3.0 million was classified as non-spendable, including \$2.5 million in advances to various TIDs. Net of non-spendable and restricted portions, the city's available General Fund balance totaled \$7.4 million and a still healthy 33% of General Fund revenues. Across the city's main operating funds (combined General and Debt Service Funds) available operating reserves totaled \$7.3 million, equivalent to 25.9% of operating fund revenues. For fiscal 2016, management originally budgeted for a General Fund deficit, but now anticipates ending the year with an operating surplus of \$648,000 given a variety of favorable budgetary variances including lower than anticipated public works expenditures. For fiscal 2017, management has budgeted for a modest General Fund surplus of \$40,000.

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In fiscal 2015, advances to TIDs grew by \$455,000 to \$2.5 million. TID #8 and TID #9 account for a majority of the interfund advances due to the General Fund at \$1.1 million and \$1.2 million, respectively. Projections show TID #9 advances beginning to be repaid in fiscal 2016. Advances to TID #8 are expected to grow to \$1.5 million by 2024, due to additional capital needs before being fully repaid in 2026.

LIQUIDITY

The city's liquidity remains sound despite growing interfund advances made to city TID districts. At the close of fiscal 2015, net cash across city operating funds totaled \$6.4 million and 22.7% of operating fund revenues. Operating fund liquidity is expected to improve over the medium-term as TID districts repay the General Fund for prior advances.

Debt and Pensions: Elevated Debt Burden, Manageable Unfunded Pension Liabilities

The city's debt burden will likely remain above average given future borrowing plans. Inclusive of the current issuances, the city's direct and overall debt burdens were above average at 2.7% and 6.6% of full valuation. The city's high overall debt burden is largely due to the significant borrowing of Sun Prairie Area School District (Aa2). The city's capital improvement plan calls for approximately \$35 million in debt over the next five years. A significant portion of the city's future debt plans are expected to be abated by utility and tax increment revenues. The city has applied for a \$4.9 million State Trust Fund loan to finance the acquisition of land.

Debt service expenditures totaled \$7.3 million or a high 25.8% of 2015 operating fund revenues. Overall fixed costs (combined debt service, pension and other post-employment benefit (OPEB) expenditures) totaled \$7.9 million and 28% of 2015 operating revenues.

Sun Prairie participates in the Wisconsin Retirement System (WRS), a statewide cost sharing plan. The city's employer contributions to WRS in fiscal 2015 were \$644,000 or a modest 2.3% of the city's fiscal 2015 operating revenue.

DEBT STRUCTURE

All of the city's debt is fixed rate and long-term. Amortization of existing debt is average as 89.6% of all principal is set to be retired over the next ten years.

DEBT-RELATED

The city has no exposure to debt related derivatives.

PENSIONS AND OPEB

Moody's adjusted net pension liability (ANPL) for Sun Prairie, under our methodology for adjusting reported pension data, was \$12.3 million in fiscal 2015, a 25.7% increase from the fiscal 2014 ANPL of \$9.8 million. The increase reflects various factors, including plan asset underperformance relative to plan assumptions, and the decline in the Citi Pension Liability Index rate, which is the discount rate we use to calculate the ANPL. Despite the increase in ANPL, Sun Prairie's ANPL remains modest at just 0.4 times the city's operating revenue and 0.5% of the full value of the city's tax base.

Moody's ANPL figure reflects the use of the Citi Pension Liability Index rate to value liabilities. The ANPL reflects the allocation of WRS liabilities to participating employers, which is a required reporting standard under GASB effective fiscal 2015. The ANPL is not intended to replace Sun Prairie's reported liability information but is used to enhance comparability with other rated entities.

The city administers a single-employer defined benefit healthcare plan. The city's group health insurance plan provides coverage to active employees and retirees (or other qualified terminated employees) at blended premium rates resulting in an implicit rate subsidy and OPEB liability. As of January 1, 2014, the most recent actuarial valuation date, the plan had an unfunded actuarial accrued liability of \$107,000 or less than 1% of operating revenues. The plan is funded on a pay-as-you-go basis and the city's contribution totaled \$14,700 in fiscal 2015.

Management and Governance: Moderate Institutional Framework; Conservative Budgeting Practices

Sun Prairie management employs conservative budgeting techniques that have led to a steady increase in General Fund reserves over the last five years. Wisconsin cities have an Institutional Framework score of A, which is moderate compared to the nation. 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 somewhat flexible, as collective bargaining is allowed for public safety employees but is curbed for non-public safety employees.

Legal Security

The city's GOULT debt, including the current issuance are secured by a dedicated property tax levy, unlimited as to rate and amount.

Use of Proceeds

Proceeds from the city's Series 2017A Notes will be used to provide funding for capital improvement projects and equipment purchases.

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.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Sun Prairie (City of) WI

Issue	Rating
General Obligation Promissory Notes, Series 2017A	Aa2
Rating Type	Underlying LT
Sale Amount	\$4,970,000
Expected Sale Date	06/06/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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