

CREDIT OPINION

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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. Favorably, the city's local economy and financial performance remained relatively strong throughout the coronavirus pandemic.

Credit strengths

- » Large tax base within commuting distance of Madison, Wisconsin (Aa1 stable), the state capital and home to 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 typically not assigned to local government issuers with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Materially improved financial reserves
- » Significant moderation of long-term liabilities

Factors that could lead to a downgrade

- » Tax base declines or weakening of resident income levels
- » Decline in financial reserves
- » Material growth in long term liabilities debt burden or fixed costs

Key indicators

Exhibit 1

Sun Prairie (City of) WI

	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value (\$000)	\$2,984,708	\$3,310,112	\$3,634,094	\$3,864,129	\$4,176,131
Population	32,112	32,757	33,321	33,954	33,954
Full Value Per Capita	\$92,947	\$101,051	\$109,063	\$113,805	\$122,994
Median Family Income (% of US Median)	116.8%	118.1%	126.3%	125.2%	125.2%
Finances					
Operating Revenue (\$000)	\$33,738	\$33,800	\$38,540	\$44,637	\$41,024
Fund Balance (\$000)	\$13,564	\$12,059	\$13,972	\$19,037	\$15,423
Cash Balance (\$000)	\$17,916	\$17,180	\$18,613	\$20,144	\$20,995
Fund Balance as a % of Revenues	40.2%	35.7%	36.3%	42.6%	37.6%
Cash Balance as a % of Revenues	53.1%	50.8%	48.3%	45.1%	51.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$60,715	\$66,046	\$75,740	\$72,528	\$69,838
3-Year Average of Moody's ANPL (\$000)	\$12,809	\$15,706	\$19,721	\$28,672	\$38,960
Net Direct Debt / Full Value (%)	2.0%	2.0%	2.1%	1.9%	1.7%
Net Direct Debt / Operating Revenues (x)	1.8x	2.0x	2.0x	1.6x	1.7x
Moody's - ANPL (3-yr average) to Full Value (%)	0.4%	0.5%	0.5%	0.7%	0.9%
Moody's - ANPL (3-yr average) to Revenues (x)	0.4x	0.5x	0.5x	0.6x	0.9x

Sources: US Census Bureau, Sun Prairie (City of) WI's financial statements and Moody's Investors Service

Profile

The city of Sun Prairie is located approximately 10 miles northeast of Madison and covers 13 square miles. The city serves about 36,000 residents and provides services including police, fire, emergency medical services, building inspections, streets, water, electric, wastewater, recreational programming and general administration.

Detailed credit considerations

Economy and tax base: large and growing tax base northeast of Madison

The city's tax base will remain stable 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, and the stable local employment base anchored by government and related enterprises. The last six consecutive years of growth drove the city's tax base to \$4.2 billion, up from approximately \$2.4 billion in 2014. The tax base is primarily comprised of residential properties (68%) yet also has a sizable commercial component (29%). Although the county's unemployment rate spiked during the pandemic, city officials note that the city's economic development continued throughout the pandemic with a solid trend of new single family homes, a trend that is expected to continue over the near term. The city's resident incomes are strong with median family income equal to 125% of the nation.

Financial operations and reserves: strong financial profile with healthy reserves

The city's financial profile will remain sound given the currently healthy reserves coupled with the limited financial impact of the coronavirus pandemic. Current fiscal 2022 estimates reflect a small \$935,000 general fund operating deficit due to a planned spend down for miscellaneous projects. For fiscal 2021, the general fund ended with a \$151,000 operating surplus. Unbudgeted expenditures related to the coronavirus pandemic were very modest. Although the city experienced some revenue disruption related to the pandemic, management enacted several expenditure adjustments during 2021 that included controlling vacant positions, reducing spending on contractual services and eliminating some summer programming to offset the impact. The city also received about \$560,000 in federal funding related to the pandemic and received an additional \$3.6 million in ARPA funding.

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The city has an established track record of solid financial performance. The combined available operating fund balance totaled about \$15.4 million at the close of fiscal 2021, equal to 38% of revenue across the general fund, special revenue funds and debt service fund. The city has \$3.4 million in non-spendable fund balance, which includes \$2.2 million in advances to various TIDs. TID #8 accounted for a majority of the interfund advances at \$875,000. Management started paying down the advances to the TIDs in fiscal 2021 and expects to continue reducing balances going forward.

Liquidity

Fiscal 2021 net cash across the city's operating funds totaled more than \$21 million, or 51% of revenue.

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

The city's debt burden is somewhat above-average and its pension burden is modest. Inclusive of the 2021 debt issuance, the city's net direct debt is equal to 1.6% of full value or 1.6x operating revenue. The city's overlapping debt burden is equal to about 7% of full value and is largely because of the significant borrowing of Sun Prairie Area School District (Aa3). The city's capital improvement plan reflects annual borrowing for the next ten years.

Fixed costs, inclusive of debt service, other post-employment benefits (OPEB) and annual pension contributions, were 34% of revenue in fiscal 2021, which is higher than normal due to an increase debt service expenditures.

Legal security

The city's general obligation unlimited tax (GOULT) debt is supported 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 supported by pledged rental payments by the city, which are subject to annual appropriation.

Debt structure

All of the city's debt is fixed rate and long-term with about 78% of principal set to be retired over the next 10 years.

Debt-related derivatives

The city has no exposure to debt related derivatives.

Pensions and OPEB

Sun Prairie 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.

The city's three-year adjusted net pension liability (ANPL) is \$39 million, equivalent to 0.9x operating revenue or 0.9% of full value. The city contributed \$1.2 million to its pension plan in 2021, equal to 3% of revenue. Moody's ANPL reflects the use of a market-based discount rate to value pension liabilities rather than the plan's assumed rate of investment return on plan assets. The city's ANPL is much higher than reported pension liabilities because the market discount rates we use to value pension liabilities are far lower than reported discount rates.

ESG considerations

Environmental

Sun Prairie's E issuer profile score is neutral to low (E-2), reflecting relatively low exposure to environmental risks across all categories, including physical climate risk, carbon transition, natural resources management, waste and pollution. Dane County, where the city is located, does have exposure to extreme rainfall. The city maintains a comprehensive plan for mitigation, preparedness, response and recovery in the event of disaster.

Social

The City of Sun Prairie's S issuer profile score is neutral to low (S-2), reflecting relatively neutral to low exposure to social risks across categories, including demographics, housing, health and safety, and access to basic services. The city has relatively strong economic trends, above average educational attainment, low unemployment rate and high labor force participation rate.

Governance

Sun Prairie's G issuer profile score is neutral to low (G-2), reflecting solid transparency and budget management balanced against a relatively restrictive institutional structure. Property tax revenue is the village's major revenue source and is subject to a cap that limits increases to the growth in net new construction. Sun Prairie has several adopted policies, including a formal fund balance policy and a long-term capital improvement plan.

Wisconsin cities have an institutional framework score ¹ 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. 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. Many cities utilize 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 revenues 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

Rating Factors	Measure	Score
Economy/Tax Base (30%)[1]		
Tax Base Size: Full Value (in 000s)	\$4,176,131	Aa
Full Value Per Capita	\$122,994	Aa
Median Family Income (% of US Median)	125.2%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	37.6%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	8.3%	A
Cash Balance as a % of Revenues	51.2%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	12.0%	Aa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.6%	A
Net Direct Debt / Operating Revenues (x)	1.6x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.9%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.9x	A
	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.

Sources: US Census Bureau, {OrgName}'s financial statements and Moody's Investors Service

Endnotes

- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(July 2020\)](#) methodology report for more details.

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