

CREDIT OPINION

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City of Sun Prairie, WI

Update to credit analysis

Summary

The credit profile of [City of Sun Prairie](#) (Aa2) is demonstrating signs of strengthening based on continued tax base and population growth. The city's favorable location near the state capital of [Madison](#) (Aaa stable), with considerable opportunities for future developments, should sustain its positive economic momentum over the next few years. The city provides a full array of municipal services, including water, sewer and electric services. Governmental and business-type enterprise operations are stable and the city maintains healthy operating reserves and liquidity. These positive credit factors help to balance the city's limited revenue raising authority given state imposed levy restrictions. Also, while overall long-term leverage to revenue ratio is below average, the city has future debt plans, including an expected near-term issuance of revenue bonds for the city's [combined water and electric utility enterprise](#) (revenue rating A1).

Credit strengths

- » Growing tax base favorably located within proximity to the City of Madison
- » Above average resident income characteristics
- » Healthy available operating fund balance and liquidity

Credit challenges

- » Limited revenue-raising flexibility because of state-imposed levy limits
- » Additional borrowing plans for routine capital projects and utility improvements

Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Continued economic and tax base expansion including increases to per capita wealth and resident incomes
- » Material strengthening to available operating fund balance and liquidity

Factors that could lead to a downgrade

- » Material economic contraction including deterioration to resident incomes or full value per capita

- » Sustained narrowing of available operating fund balance or liquidity
- » Significant growth to the city's long-term liability leverage to revenue ratio

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 1

Sun Prairie (City of) WI

	2019	2020	2021	2022	Aa Medians
Economy					
Resident income ratio (%)	125.0%	127.5%	124.9%	124.9%	115.0%
Full Value (\$000)	\$3,634,094	\$3,864,129	\$4,176,131	\$4,767,507	\$2,649,338
Population	33,321	33,954	35,528	35,528	22,694
Full value per capita (\$)	\$109,063	\$113,805	\$117,545	\$134,190	\$108,666
Economic growth metric (%)	N/A	0.4%	0.1%	N/A	-0.5%
Financial Performance					
Revenue (\$000)	\$81,112	\$85,653	\$90,220	\$99,165	\$48,404
Available fund balance (\$000)	\$23,057	\$21,034	\$33,155	\$35,623	\$24,069
Net unrestricted cash (\$000)	\$34,111	\$41,121	\$47,356	\$50,400	\$32,092
Available fund balance ratio (%)	28.4%	24.6%	36.7%	35.9%	51.0%
Liquidity ratio (%)	42.1%	48.0%	52.5%	50.8%	69.0%
Leverage					
Debt (\$000)	\$108,145	\$106,777	\$123,061	\$117,620	\$34,496
Adjusted net pension liabilities (\$000)	\$26,611	\$59,315	\$94,831	\$58,590	\$55,543
Adjusted net OPEB liabilities (\$000)	\$0	\$0	\$0	\$0	\$6,316
Other long-term liabilities (\$000)	\$2,393	\$2,737	\$2,651	\$2,942	\$1,623
Long-term liabilities ratio (%)	169.1%	197.1%	244.4%	180.7%	244.8%
Fixed costs					
Implied debt service (\$000)	\$6,852	\$7,885	\$7,647	\$8,631	\$2,436
Pension tread water contribution (\$000)	\$984	\$746	\$576	N/A	\$1,565
OPEB contributions (\$000)	\$0	\$0	\$0	\$0	\$178
Implied cost of other long-term liabilities (\$000)	\$168	\$174	\$196	\$186	\$109
Fixed-costs ratio (%)	9.9%	10.3%	9.3%	9.5%	11.1%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Madison, WI Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

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

Profile

The City of Sun Prairie encompasses roughly 13 square mile of [Dane County](#) (Aa1 stable) in south-central [Wisconsin](#) (Aa1 stable), approximately 20 miles northeast of the City of Madison. The city is governed by a mayor-council form of government and provides comprehensive municipal services, including certain utilities, to a population of an estimated 36,000 residents.

Detailed credit considerations

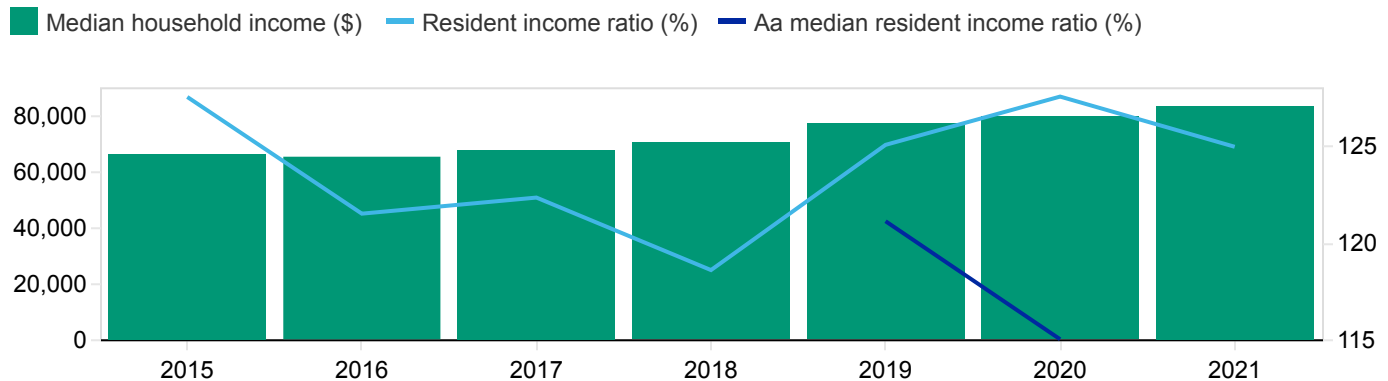
Economy: growing suburb favorably located in proximity to the capital city of Madison

Sun Prairie's economic fundamentals are a key credit strength and we expect the city's tax base will continue to expand given population growth and available land for future developments. The city's economy benefits from its close proximity to the state capital of Madison, which offers diverse employment opportunities in addition to being anchored by the state government and flagship campus of the University of Wisconsin. The regional economy's rate of growth, as measured by its five-year GDP compound average growth rate (CAGR), has slightly exceeded that of the nation overall. The city's unemployment rate is typically below that of the state and nation, standing at a very low 1.5% as of April 2023. The city's largest employers include the [Sun Prairie Area School District](#) (Aa3; 1,500 employees), the city itself (760), and Colony Brands (500).

The city's tax base is currently valued at a sizable \$4.8 billion and has grown at a brisk average annual rate of 7.6% over the past five years. Residential real estate comprises the majority of the tax base at 69% of total equalized value, followed by commercial property at 28%. Taxpayer concentration is low as no single taxpayer accounts for more than 2% of full value. The city has a diverse housing sector and its median home value is slightly higher than the median home value of the [United States](#) (Aaa stable) overall. The city's population has increased by roughly 20% since 2010 and this trend should continue to support the city's healthy housing sector.

Additionally, the city's median household income is above average at 125% of the US overall, and rising tax base values have increased its full value per capita to a solid \$134,000.

Exhibit 2

Resident Income

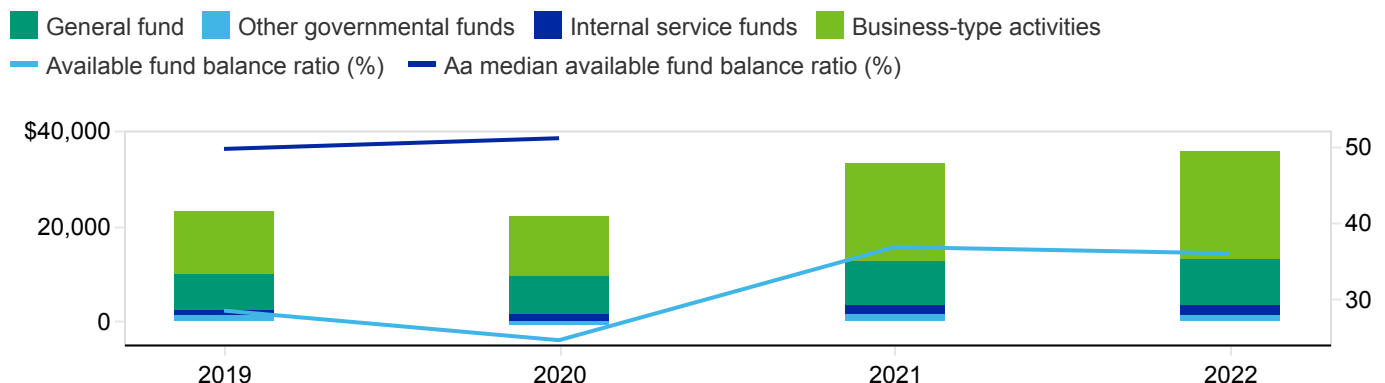
Source: Moody's Investors Service

Financial operations: healthy governmental and business-enterprise operations and reserves

Sun Prairie's fiscal outlook will remain sound based on management's operating track record and maintenance of strong available reserves. The city's fiscal 2023 budget (year-end December 31) depicts a roughly \$2 million general fund deficit for the year which is primarily a result of one-time strategic investment in the city's class and compensation plan to enhance employee retention and recruitment. The budgeted deficit would reduce the city's year-end general fund balance to approximately \$12.2 million, equal to a still healthy 39% of budgeted general fund revenue.

The anticipated general fund draw in fiscal 2023 would end a decade-plus string of surplus operations in the general fund, including its most recent surplus of \$626,000 in fiscal 2022. The city closed that year with \$13.1 million in available fund balance across all governmental funds and \$22.5 million in net unrestricted assets in its business-type enterprise funds. Total available and net unrestricted assets stood at \$35.6 million, equal to 35.9% of total revenue.

Exhibit 3

Fund Balance

Source: Moody's Investors Service

The city's healthy reserve position helps to offset the State of Wisconsin's restrictive funding framework for municipalities as tight levy limits inhibit a city's ability to materially increase annual revenue. Property taxes make up nearly two-thirds of the city's governmental revenue, followed by intergovernmental aid, and special assessments. The city has some revenue flexibility on the business-type

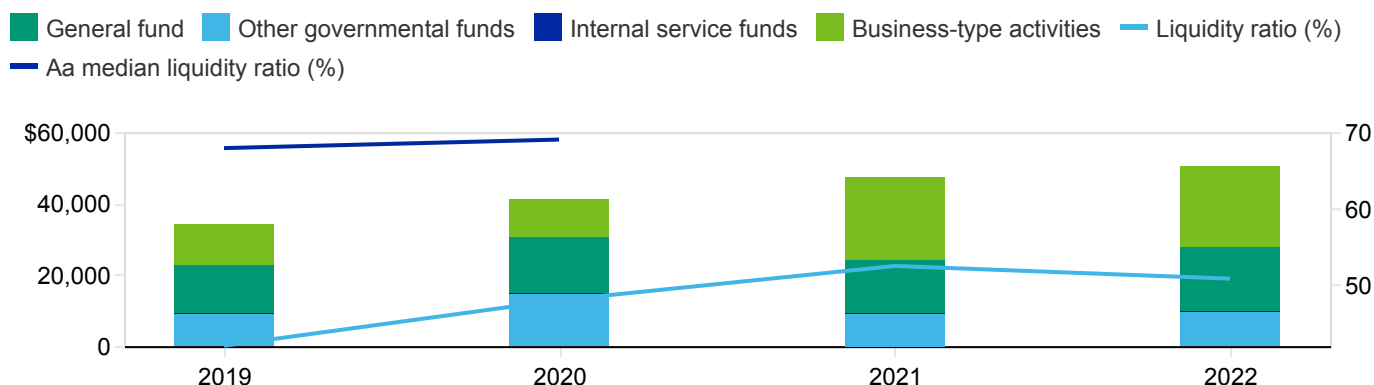
enterprise side, though rate increases for water and electric are subject to approval by the state's Public Service Commission (PSC). The city anticipates that it will gain PSC approval for upcoming rate increases as it will need to increase revenue to help support new revenue debt expected to be issued in the next twelve months.

Liquidity

Sun Prairie's liquidity position is strong. At the close of fiscal 2022 the city held \$50.4 million in combined governmental and business-type enterprise cash. The majority of cash held by utilities is in the city's combined water and electric fund which ended the year with approximately 165 operating days cash-on-hand.

Exhibit 4

Cash



Source: Moody's Investors Service

Leverage: below average long-term leverage but with future debt plans

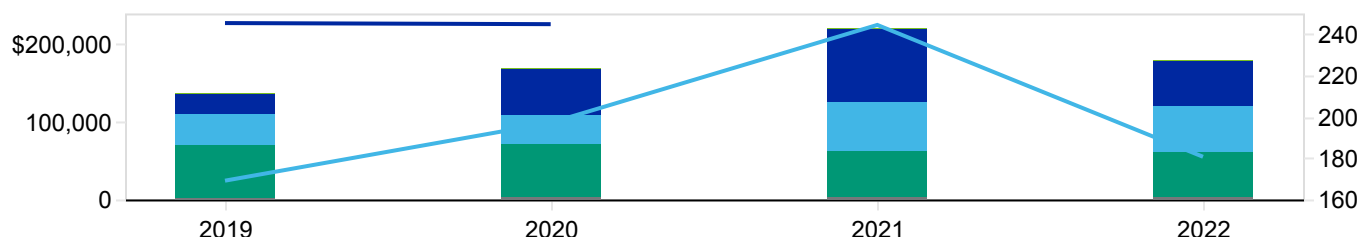
The city's overall leverage of long-term debt and unfunded retiree benefit liabilities is below average for the sector. However, the city's growth will require routine debt issuances for capital improvements. Sun Prairie is currently in the process of marketing approximately \$11.1 million in general obligation unlimited tax (GOULT) notes to finance a variety of capital projects including improvements to city streets, public buildings, parks, and sewer system, along with equipment and vehicle acquisition. Following the sale of the notes the city will have roughly \$85.8 million in full faith and credit GOULT debt. In addition to the GOULT debt the city has a modest \$1.5 million in lease-backed revenue debt, \$9.7 million in water and electric revenue debt, and \$17.8 million in sewer revenue debt. We anticipate the city will engage in additional borrowing either annually or bi-annually to help pay for its rolling capital improvement plan (CIP). Upcoming debt plans include the issuance of a projected \$27 million in water and light utility revenue bonds to pay the cost of a new main facilities building, water main replacements and an electrical substation upgrade. The bonds will not be general obligations of the city and will be payable only from a pledge of the net revenue of the water and light utility.

Aside from the debt the city carries unfunded liabilities associated with its participation in a statewide defined benefit pension plan. The city's Moody's adjusted net pension liability (ANPL) as of its most recent fiscal 2022 audit stood at \$58.6 million. Total leverage inclusive of debt and unfunded adjusted liabilities equaled a below average 181% of total revenue.

Exhibit 5

Total Primary Government - Long Term Liabilities

■ Governmental Debt ■ Business-Type Activity Debt ■ Adjusted net pension liabilities
 ■ Adjusted net other post-employment liabilities ■ Other long-term liabilities — Long-term liabilities ratio (%)
 — Aa median long-term liabilities ratio (%)



Source: Moody's Investors Service

Legal security

The city's GOULT debts are full faith and credit general obligations payable from all available resources including an ad valorem tax that is unlimited as to rate or amount. The city's lease revenue bonds are supported by pledged rental payments by the city, which are subject to annual appropriation. Utility revenue debt is payable from net operating revenue of the respective utility funds.

Debt structure

All of the city's debt is in fixed rate long-term mode. Roughly 85% of the city's GOULT debt is scheduled to be retired over the next 10 years. Additionally, approximately two-thirds of water and electric revenue debt will be paid off over the next decade, as will 60% of its sewer revenue debt. All debt, including the upcoming GOULT notes will mature by 2041.

Debt-related derivatives

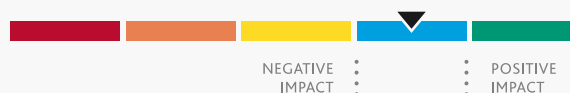
The city has no exposure to any debt related derivative financial products.

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.

ESG considerations**Sun Prairie (City of) WI's ESG Credit Impact Score is Neutral-to-Low CIS-2**

Exhibit 6

ESG Credit Impact Score**CIS-2****Neutral-to-Low**

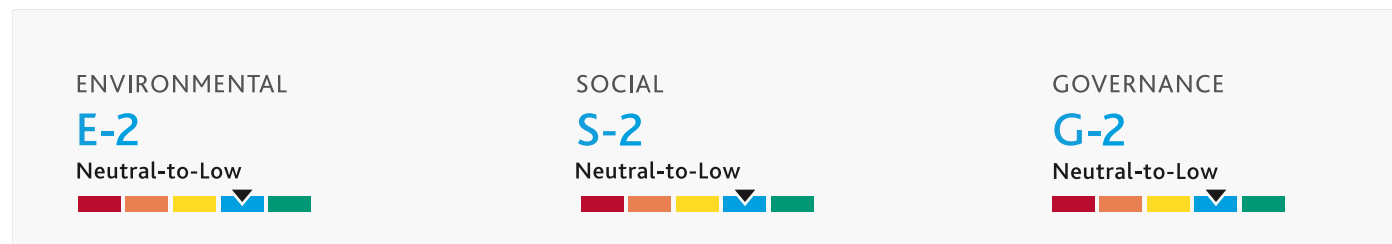
For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Sun Prairie's overall ESG Credit Impact Score is neutral to low (**CIS-2**), reflecting neutral to low exposure to environmental, social, and governance risks.

Exhibit 7

ESG Issuer Profile Scores



Source: Moody's Investors Service

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. The city 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 city'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.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 8

Sun Prairie (City of) WI

	Measure	Weight	Score
Economy			
Resident income ratio	124.9%	10.0%	Aaa
Full value per capita	134,190	10.0%	Aa
Economic growth metric	0.1%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	35.9%	20.0%	Aaa
Liquidity ratio	50.8%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	180.7%	20.0%	Aa
Fixed-costs ratio	9.5%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa1
Assigned Rating			Aa2

The complete list of outstanding ratings assigned to the Sun Prairie (City of) WI is available on their [issuer page](#). Details on the current ESG scores assigned to the Sun Prairie (City of) WI are available on their [ESGView page](#).

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

Appendix

Exhibit 9

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

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