

CREDIT OPINION

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Send Your Feedback

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City of Sun Prairie, WI and Sun Prairie Combined Utility Enterprise, WI

Update to credit analysis

Summary

[Sun Prairie, WI](#) (Aa2) benefits from a strong financial position and growing local economy, though revenue-raising flexibility remains limited because of state-imposed levy limits and leverage will moderately increase with upcoming issuances and further material borrowing plans.

[Sun Prairie, WI Combined Utility Enterprise](#) (A1) benefits from solid debt service coverage and liquidity, which is balanced against the enterprise's moderate size and lack of independent rate-setting authority.

On July 12, we affirmed the city's Aa2 issuer rating, the Aa2 rating on the city's outstanding general obligation unlimited tax (GOULT) debt, the A1 rating on the city's outstanding lease revenue bonds, and the A1 rating on the city's outstanding combined utility revenue bonds.

Credit strengths

- » Growing tax base favorably located within proximity to the [City of Madison](#) (Aaa stable)
- » Above median resident income
- » Strong available fund balance and liquidity
- » Consistently strong debt service coverage (utility revenue bonds)
- » Electric rate increases include an automatic pass through for power cost adjustments (utility revenue bonds)

Credit challenges

- » Limited revenue-raising flexibility because of state-imposed levy limits
- » Increase in leverage following upcoming issuances
- » Rate increases require approval of the PSC (utility revenue bonds)

Rating outlook

We do not assign new outlooks to local government issuers with this amount of debt.

Factors that could lead to an upgrade

- » Successful execution of significant capital projects while maintaining a leverage ratio under 150% of revenue
- » Material strengthening to available fund balance closer to 50% of revenue

- » Substantial and sustained increases to the combined utility's liquidity above 250 days cash on hand coupled with maintenance of strong adjusted debt service coverage ratio (utility revenue bonds)

Factors that could lead to a downgrade

- » Sustained narrowing of available fund balance or liquidity ratios approaching 20% of revenue
- » Substantial and sustained increase in the leverage ratio approaching 300% of revenue
- » Material narrowing of the combined utility's liquidity below 90 days cash on hand or weakening of coverage nearing 2x revenue (utility revenue bonds)

Key indicators

Exhibit 1

Sun Prairie (City of) WI

	2020	2021	2022	2023	Aa Medians
Economy					
Resident income ratio (%)	127.8%	125.2%	126.2%	N/A	115.2%
Full Value (\$000)	\$3,864,129	\$4,176,131	\$4,767,507	\$5,481,682	\$2,753,876
Population	33,954	35,528	35,847	N/A	22,803
Full value per capita (\$)	\$113,805	\$117,545	\$132,996	N/A	N/A
Annual Growth in Real GDP	-2.4%	5.4%	1.8%	N/A	4.9%
Financial Performance					
Revenue (\$000)	\$85,653	\$90,220	\$99,165	\$103,073	\$49,930
Available fund balance (\$000)	\$21,034	\$33,155	\$35,623	\$36,274	\$27,007
Net unrestricted cash (\$000)	\$41,121	\$47,356	\$50,400	\$52,996	\$36,277
Available fund balance ratio (%)	24.6%	36.7%	35.9%	35.2%	54.0%
Liquidity ratio (%)	48.0%	52.5%	50.8%	51.4%	75.9%
Leverage					
Debt (\$000)	\$106,777	\$123,061	\$117,620	\$114,677	\$35,831
Adjusted net pension liabilities (\$000)	\$59,315	\$94,831	\$58,590	\$30,603	\$55,367
Adjusted net OPEB liabilities (\$000)	\$0	\$0	\$0	\$0	\$5,248
Other long-term liabilities (\$000)	\$2,737	\$2,651	\$2,942	\$3,488	\$1,716
Long-term liabilities ratio (%)	197.1%	244.4%	180.7%	144.3%	244.9%
Fixed costs					
Implied debt service (\$000)	\$7,885	\$7,647	\$8,631	\$8,215	\$2,465
Pension tread water contribution (\$000)	\$746	\$576	\$643	N/A	\$1,563
OPEB contributions (\$000)	\$0	\$0	\$0	\$0	\$178
Implied cost of other long-term liabilities (\$000)	\$174	\$196	\$186	\$205	\$116
Fixed-costs ratio (%)	10.3%	9.3%	9.5%	8.8%	10.7%

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 real GDP annual growth metric cited above is for the Madison, WI Metropolitan Statistical Area Metropolitan Statistical Area.

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

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.moodys.com> for the most updated credit rating action information and rating history.

Exhibit 2

Sun Prairie (City of) WI Combined Utility Enterprise[Sun Prairie \(City of\) WI Combined Utility Enterprise](#)

	2019	2020	2021	2022	2023
Total Sales (mWh)	294,093	291,320	304,663	303,466	299,238
Operating Revenue (\$000)	\$30,899	\$31,750	\$34,091	\$37,566	\$36,212
Debt Outstanding (\$000)	\$5,925	\$5,335	\$10,834	\$10,234	\$17,669
Adjusted Debt Ratio (%)	9.1%	24.2%	50.4%	11.3%	17.5%
Adjusted Days Liquidity on Hand (days)	134	138	165	165	176
Adjusted Debt Service Coverage (x)	5.72x	6.04x	5.54x	6.18x	4.15x

Source: Sun Prairie (City of) WI's financial statements and Moody's Ratings

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 roughly 36,000 residents.

The combined utility provides electricity and water services to a moderately sized customer base within the City of Sun Prairie and a portion of surrounding communities. The electric portion of the combined utility is owned and operated by the city and operates under service rules established by the Public Service Commission (PSC) which regulates the rates charged. The city purchases most of its power and energy requirements from [WPPI Energy](#) (A1 stable) under a "take and pay" contract that expires in 2055. The water portion of the combined utility also operates under service rules established by the PSC which regulates the rates charged. The city owns, operates and maintains the water utility, which consists of seven wells with electric pumping equipment and a water distribution system.

Detailed credit considerations

The city is characterized by a strong financial position and growing local economy. The city's available fund balance ratio is strong at 35%, with reserves robust across both governmental and business-type activities. The city's business-type activities account for just under 50% of total operating revenue, and they include its sewer, stormwater, and combined water and electric enterprises. The city benefits from its location in the Madison metro area, with economic growth in line with the nation, resident income at 126% of the US, and full value per capita growing to over \$150,000. The Wisconsin state capital and University of Wisconsin's flagship campus in Madison anchor the regional economy. The city's population grew by more than 20% in the last decade, a trend that will likely continue because of the robust housing development underway.

The city's available fund balance ratio is strong at 35% and will likely remain robust given the city's roughly balanced fiscal 2024 (December 31 year-end) budget. Inclusive of the current issuances, the city's leverage ratio will remain moderate around 180% of fiscal 2023 revenue. The city has material borrowing plans including a wastewater treatment project. For that project, the city expects to close in the next 12 months on a Clear Water Fund Loan (CWFL) in the amount of roughly \$3.5 million, which would be backed by a pledge of sewer revenues. The overall project is projected to cost \$66 million and be funded with CWFLs, though leverage will rise gradually as the city phases in the loan and project. The leverage ratio would be materially higher if not for the pass through revenue and expenditures related to the electric operations.

Electric operations account for bulk of utility operations

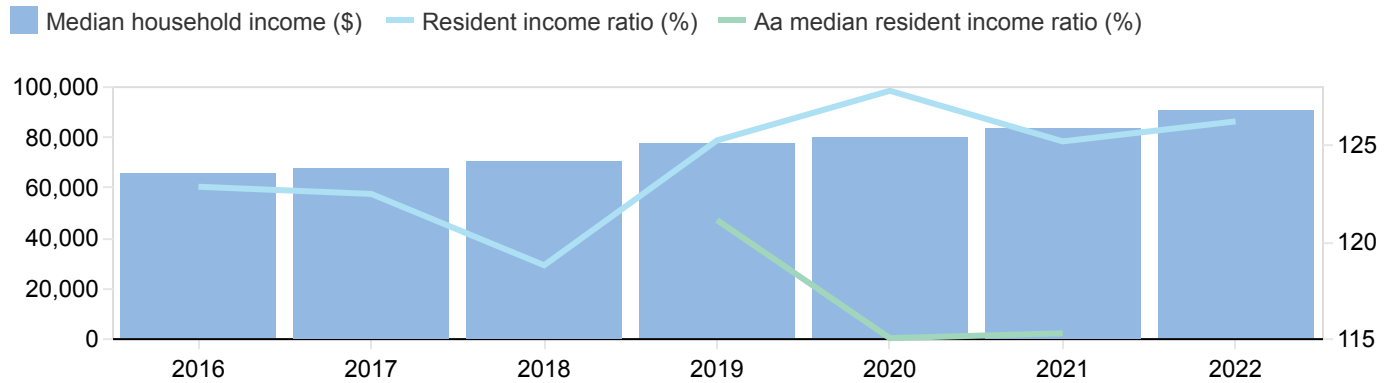
The electric enterprise accounts for over 85% of the combined utility's operations. The combined utility is characterized by a modestly sized but growing service area, solid liquidity that has improved in recent years to 176 days of cash on hand, and moderate system leverage with a strong adjusted debt service coverage ratio above 4x. Liquidity for the combined utility will likely remain solid given expected reimbursements from the issuance and a consistent track record of rate increases. The enterprise relies on approval from the PSC for rate increases, though it has a power cost adjustment clause which allows increase in power costs to be passed through to customers.

Inclusive of the upcoming issuance for the combined utility, the adjusted debt ratio will likely increase to over 30% and the adjusted debt service coverage ratio will likely moderate over the next few years below 3x revenue but remain strong.

Economy

Exhibit 3

Resident Income

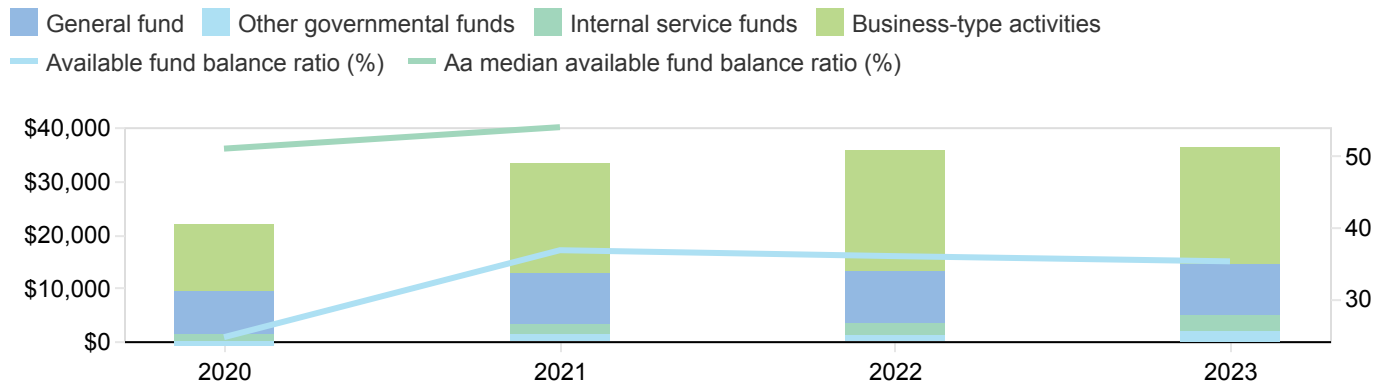


Source: Moody's Ratings

Financial operations

Exhibit 4

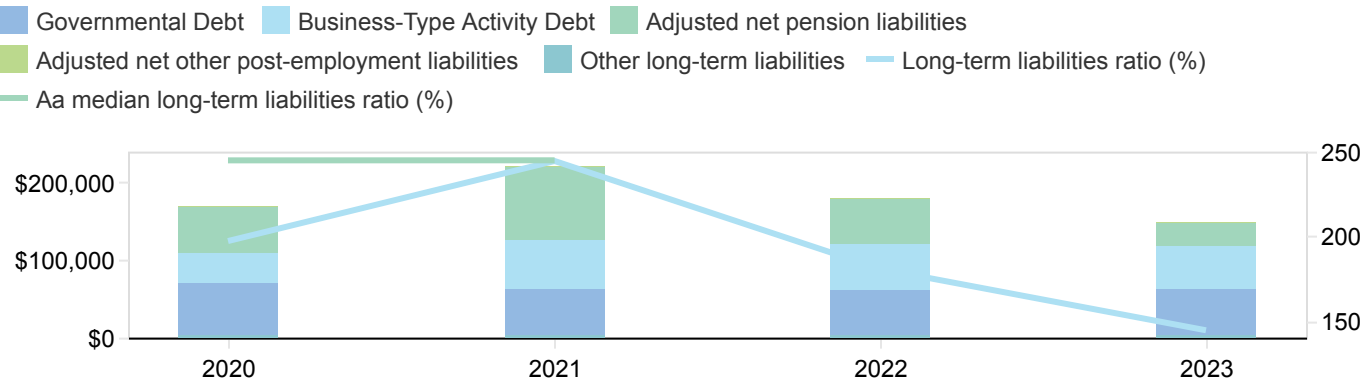
Fund Balance



Source: Moody's Ratings

Leverage

Exhibit 5
Total Primary Government - Long Term Liabilities

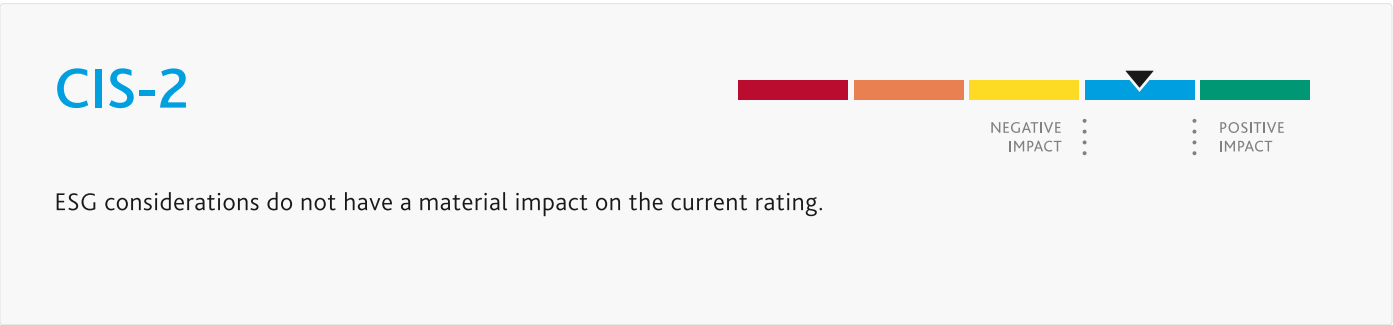


Source: Moody's Ratings

ESG considerations

Sun Prairie (City of) WI's ESG credit impact score is CIS-2

Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Sun Prairie's ESG **CIS-2** incorporates a sound governance profile, solid social attributes, and minimal exposure to environmental risks.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Sun Prairie's **E-2** reflects the city's inland location that minimizes exposure to physical climate risk. The city has some exposure to extreme rainfall and maintains a comprehensive plan for mitigation, preparedness, response and recovery in the event of disaster.

Social

Sun Prairie's **S-2** reflects demographic trends, housing accessibility and health and safety indicators that are in line with peers. The city has above average educational attainment, a low unemployment rate and high labor force participation rate.

Governance

Sun Prairie's **G-2** reflects 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 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	126.2%	10.0%	Aaa
Full value per capita	152,919	10.0%	Aa
Economic growth metric	0.1%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	35.2%	20.0%	Aaa
Liquidity ratio	51.4%	10.0%	Aaa
Institutional Framework			
Institutional Framework	A	10.0%	A
Leverage			
Long-term liabilities ratio	144.3%	20.0%	Aa
Fixed-costs ratio	8.8%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa1
Assigned Rating			Aa2

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

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 Cities and Counties Methodology](#).

Source: Moody's Ratings

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