

CREDIT OPINION

31 October 2017

New Issue

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Sun Prairie (City of), WI

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

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the city of Sun Prairie, WI's \$4.9 million General Obligation Corporate Purpose Bonds, Series 2017B. Moody's maintains the Aa2 rating on the city's previously issued general obligation unlimited tax (GOULT) debt. Post-sale, the city will have \$58.8 million in GOULT debt.

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

Credit Strengths

- » Large tax base adjacent to the City of Madison, home of the Wisconsin state capital and the flagship campus of the University of Wisconsin
- » Strong resident income indices
- » Sound financial operations and healthy reserve levels

Credit Challenges

- » Elevated direct and overall debt burden
- » High 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
- » Moderation of debt levels

Factors that Could Lead to a Downgrade

- » Tax base valuation declines or weakening of resident income indices
- » Reduced operating reserves or liquidity

» Growth in debt levels

Key Indicators

Exhibit 11

Sun Prairie (City of) WI	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$ 2,353,843	\$ 2,368,669	\$ 2,413,489	\$ 2,566,184	\$ 2,772,246
Full Value Per Capita	\$ 80,407	\$ 79,273	\$ 78,870	\$ 82,318	\$ 85,004
Median Family Income (% of US Median)	122.5%	125.4%	117.5%	119.6%	119.6%
Finances					
Operating Revenue (\$000)	\$ 36,700	\$ 32,171	\$ 28,590	\$ 28,291	\$ 29,053
Fund Balance as a % of Revenues	17.8%	20.8%	23.9%	25.9%	26.5%
Cash Balance as a % of Revenues	16.0%	23.5%	29.3%	22.7%	43.8%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 67,941	\$ 67,254	\$ 76,969	\$ 74,241	\$ 80,110
Net Direct Debt / Operating Revenues (x)	1.9x	2.1x	2.7x	2.6x	2.8x
Net Direct Debt / Full Value (%)	2.9%	2.8%	3.2%	2.9%	2.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.1x	0.2x	0.3x	0.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.2%	0.2%	0.3%	0.4%

The table above reflects data through the close of fiscal 2016 and does not reflect new sale data. Post sale the city will have \$58.8 million of GO net direct debt outstanding.

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

Recent Developments

Since our last report dated May 31, 2017, the city released audited fiscal 2016 financial statements. The city closed the year with an operating fund (General Fund and Debt Service Fund) surplus of \$806,000. Operating reserves totaled a healthy \$7.7 million, or 26.5% of revenues.

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 declines, 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 and is expected to continue given a tight real-estate market and significant land available for future development.

Population grew by 33% between 1990 and 2000 and by 44% between 2000 and 2010, according to census figures. Estimates from 2015 reflect an 6.2% increase from 2010 to 32,613. Resident income levels are estimated at 119.6% of the national median. At 2.6% as of August 2017, the city's unemployment rate remains well below state and national figures of 3.4% and 4.5%, respectively.

Financial Operations and Reserves: Healthy operating reserves; some TIDs require General Fund support

The city's financial profile is expected to remain stable given healthy reserve levels, although several underperforming TIDs pose some pressure to the city's finances. The city closed fiscal 2016 with a General Fund surplus of \$648,000, increasing total General Fund reserves to \$11.2 million and 49.9% of General Fund revenues. Of the total General Fund balance, \$2.9 million was classified as non-spendable, including \$2.3 million in advances to various TIDs. Net of non-spendable and restricted portions, the city's available General Fund balance totaled \$7.8 million and a still healthy 34.9% of General Fund revenues. Across the city's main operating funds (combined General and Debt Service Funds) available operating reserves totaled \$7.7 million, equivalent to 26.5% of operating fund revenues.

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.

For fiscal 2017, management originally budgeted for a modest General Fund deficit but now anticipates ending the year with balanced operations given a variety of favorable budgetary variances including lower than anticipated public works expenditures. For fiscal 2018, management has budgeted for a planned spend down of \$450,000 in the General Fund for capital projects.

The city's TIDs have needed increasing General Fund support. In fiscal 2016, advances to TIDs from the General Fund equaled \$2.3 million. TID #8 and TID #9 accounted for a majority of the interfund advances due to the General Fund at \$1.1 million and \$960,000, respectively. 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 2016, net cash across city operating funds totaled \$12.7 million and 43.8% of operating fund revenues.

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 2.9% and 8.8% of full valuation. The city's high overall debt burden is largely due to the significant borrowing of Sun Prairie Area School District (Aa3). The city's capital improvement plan calls for approximately \$25 million in debt over the next twelve months, which will fund 2018 capital projects, as well as a portion of planned 2019 projects, consisting primarily of utility projects.

Debt service expenditures totaled \$7.0 million or a high 24% of 2016 operating fund revenues. Overall fixed costs (combined debt service, pension and other post-employment benefit expenditures) totaled \$7.5 million and 26% of 2016 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 2016 were \$562,000 or a modest 1.9% of the city's fiscal 2016 operating revenue.

DEBT STRUCTURE

All of the city's debt is fixed rate and long-term. Amortization of existing debt is above average at 91.4% of all principal is set to be retired over the next ten years.

DEBT-RELATED DERIVATIVES

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 \$12.6 million in fiscal 2016, a very modest 2.6% increase from the fiscal 2015 ANPL of \$12.3 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, 2016, the most recent actuarial valuation date, the plan had an unfunded actuarial accrued liability of \$112,192 or less than 1% of operating revenues. The plan is funded on a pay-as-you-go basis and the city's contribution totaled \$18,000 in fiscal 2016, or a modest 1.9% of operating revenues.

Management and Governance: Moderate institutional framework

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. 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, is secured by a dedicated property tax levy, unlimited as to rate and amount.

Use of Proceeds

Proceeds from the city's Series 2017B Bonds will be used to provide funding for sewer system projects, consisting of sanitary sewer extensions and improvements and storm water management projects.

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.moody.com for a copy of this methodology.

Ratings

Exhibit 2

Sun Prairie (City of) WI

Issue	Rating
General Obligation Corporate Purpose Bonds, Series 2017B	Aa2
Rating Type	Underlying LT
Sale Amount	\$4,900,000
Expected Sale Date	11/07/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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