

CREDIT OPINION

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New Issue

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Reedsburg (City of), WI

New Issue: Moody's Assigns A1 to Reedsburg, WI's \$7.5M GO Ref. Bonds, Ser. 2016A

Summary Rating Rationale

Moody's Investors Service has assigned an A1 rating to the City of Reedsburg, WI's \$7.5 million General Obligation Refunding Bonds, Series 2016A. Moody's maintains the A1 rating on the city's outstanding general obligation unlimited tax (GOULT) debt. Post-sale, the city will have \$19.1 million of GO debt outstanding, \$13.1 million of which is rated by Moody's.

The A1 rating reflects the city's healthy financial profile characterized by satisfactory reserves and a trend of operating surpluses; modestly-sized tax base; and high fixed costs associated with an elevated debt burden.

Credit Strengths

- » Healthy reserve levels resulting from a trend of operating surpluses
- » Modestly-sized tax base with recent growth
- » Moderate pension obligations

Credit Challenges

- » Elevated debt burden
- » Below average demographic profile
- » Underperforming TIF districts which required General Fund support

Rating Outlook

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

Factors that Could Lead to an Upgrade

- » Strengthening of the city's tax base and/or socioeconomic indicators
- » Repayment of interfund advances

Factors that Could Lead to a Downgrade

- » Significant narrowing of reserves
- » Deterioration of the city's tax base and/or socioeconomic profile

» Increases to the city's debt and/or pension burden

Key Indicators

Exhibit 1

Reedsburg (City of) WI	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 562,696	\$ 540,873	\$ 517,366	\$ 519,404	\$ 544,210
Full Value Per Capita	\$ 61,896	\$ 58,612	\$ 55,387	\$ 55,191	\$ 56,997
Median Family Income (% of US Median)	85.2%	84.6%	85.8%	88.4%	88.4%
Finances					
Operating Revenue (\$000)	\$ 8,232	\$ 7,591	\$ 13,174	\$ 7,748	\$ 7,999
Fund Balance as a % of Revenues	18.7%	18.9%	17.0%	32.1%	22.4%
Cash Balance as a % of Revenues	3.9%	5.0%	14.4%	26.0%	22.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 18,039	\$ 16,759	\$ 15,540	\$ 14,170	\$ 20,435
Net Direct Debt / Operating Revenues (x)	2.2x	2.2x	1.2x	1.8x	2.6x
Net Direct Debt / Full Value (%)	3.2%	3.1%	3.0%	2.7%	3.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.4x	0.3x	0.7x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.6%	0.8%	1.1%	1.4%

The above metrics do not include the current issuance.

Source: Moody's Investors Service, Audited Financial Statements, US Census data

Detailed Rating Considerations

Economy and Tax Base: Modestly-Sized Tax Base Located in Southcentral Wisconsin

The City of Reedsburg is located approximately 60 miles northwest of the [City of Madison](#) (Aaa stable) in [Sauk County](#) (Aa1). The \$544.2 million tax base is predominately residential in nature (61.4% of equalized value) with a significant commercial (26.4%) presence, and has averaged losses of 2.2% annually over the past five years. Positively, growth of 0.4% and 4.8% in 2014 and 2015, respectively, indicate the base is stabilizing. There is concentration in the base, with the top ten taxpayers comprising 12.8% of full value, and the largest employer and taxpayer, [Lands' End, Inc.](#) (B1 stable; 725 employees) accounting for 3.5%. The April 2016 unemployment rate in Sauk County was 4%, below both state (4.3%) and national (4.7%) rates for the same time period. Resident wealth levels are below average with median family income at 88.4% of the nation, per American Community Survey (2010-2014) estimates.

Financial Operations and Reserves: Healthy Financial Position Despite Ongoing Advances

The city's financial operations are expected to remain healthy given a trend of operating surpluses and solid reserve levels. The city has posted six consecutive operating surpluses, including a modest fiscal 2015 surplus of \$50,000, resulting in an available General Fund balance of \$1.9 million, or a healthy 31.2% of revenues. Available fund balance across all operating funds (General and Debt Service Funds), totaled a slightly lower \$1.8 million, or 22.4% of total operating revenues. The fiscal 2016 budget reflects balanced operations, with management reporting no major variances to date. Property taxes are the city's largest source of revenues, comprising 55.4% of fiscal 2015 operating revenues, followed by intergovernmental aid at 18.7%.

The city has historically advanced funds to underperforming tax increment districts (TID), with approximately \$3.1 million owed to the General Fund at fiscal year-end 2015. The advances from the General Fund to the TIDs were primarily used to pay for infrastructure improvements in order to attract new development to the city. TIDs #3 and #6 have been designated as distressed, which has allowed the city to allocate money from other TIDs as well as extend the projected closure dates. Positively, management reports the completion of several developments, with growth in TIDs #3, #4 and #8.

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.

LIQUIDITY

The city's net cash balance (General and Debt Service Funds) at the close of fiscal 2015 was \$1.8 million, or a satisfactory 22.6% of operating revenues.

Debt and Pensions: High Fixed Costs Stemming From Elevated Debt Burden

The city's debt burden is elevated but pension obligations are moderate. At 3.5% of full value and 2.4 times operating revenues, the city's debt burden is above average for similarly rated credits. Fiscal 2015 total fixed costs, inclusive of debt service and pension contributions, comprised a high 28.8% of operating revenues. The city expects to issue additional GO refunding debt in August. Management reports no plans for additional borrowing beyond the planned August issuance.

DEBT STRUCTURE

All of the city's debt is long-term and fixed rate. Principal amortization is slower than average with 67.6% of debt retired within 10 years.

DEBT-RELATED DERIVATIVES

The city has no exposure to any debt-related derivatives.

PENSIONS AND OPEB

Reedsburg has a moderate pension burden, based on liabilities associated with its participation in the Wisconsin Retirement System (WRS), a state-wide cost-sharing plan. WRS pension liabilities are fully funded on a reported basis. The city's annual contribution in fiscal 2015 was \$383,000, equal to 4.8% of 2015 operating revenues. Moody's adjusted net pension liability (ANPL) for the city as of fiscal 2015, under our methodology for adjusting reported pension data, is \$12.4 million. The city's three-year average ANPL is equal to a manageable 1.0 times operating revenues and 1.4% of full value. Reedsburg does not offer any other post-employment benefits (OPEB) to retired employees.

The Moody's ANPL referenced above reflects the use of a market-based discount rate to value liabilities, and, beginning in fiscal 2015, reflects the cost-sharing plan allocations reported by the city under GASB 68. Our pension adjustments are not intended as a guide, but rather to enhance the comparability of rated entities in our credit analysis. In fiscal 2014, plan contributions were 323% of the entire plan's "tread water" indicator, or the amount necessary to cover current year service cost and interest on accumulated unfunded liabilities. Falling short of the "tread water" indicator enables reported unfunded liabilities to grow even if the plans' assets achieve assumed investment returns. Contributions above "tread water" cover all net pension liability interest plus pay down some principal, which is stronger from a credit perspective compared to contributions below this level.

Management and Governance: Moderate Institutional Framework

Wisconsin cities have an institutional framework score of "A," or moderate. Revenues are highly predictable as property taxes and state aid represent the largest revenue streams. Overall, cities have low revenue-raising ability. Property tax levy caps generally restrict cities from increasing their operating property tax levy except to capture amounts represented by net new construction growth. Expenditures mostly consist of personnel costs, which are moderately predictable. Expenditures are somewhat flexible, as collective bargaining is allowable for public safety employees but is curbed for non-public safety employees.

Management is strong, as evidenced by the city's five-year average operating ratio of 1.02 times. The city's administration adheres to long-term operational plans to address the city's needs and maintains a multi-year capital plan.

Legal Security

Debt service on the bonds is secured by the city's general obligation unlimited tax pledge to levy a dedicated tax not limited by rate or amount.

Use of Proceeds

Proceeds from the Series 2016A bonds will be used to refund a State Trust Fund Loan in conjunction with the city's Communications Utility.

Obligor Profile

The City of Reedsburg is located in southcentral Wisconsin, approximately 60 miles northwest of Madison. It encompasses 5.2 square miles with an estimated population of 9,400.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

Reedsburg (City of) WI

Issue	Rating
General Obligation Refunding Bonds, Series 2016A	A1
Rating Type	Underlying LT
Sale Amount	\$7,495,000
Expected Sale Date	07/25/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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