

New Issue: Moody's assigns Aa3 rating to the Village of Summit's (WI) \$9.8 million General Obligation Refunding Bonds, Series 2013A

Global Credit Research - 07 Jan 2013

Aa3 rating applies to \$11.0 million of post-sale Moody's rated GOULT debt

SUMMIT (VILLAGE OF) WI
Cities (including Towns, Villages and Townships)
WI

Moody's Rating

ISSUE	RATING
General Obligation Refunding Bonds, Series 2013A	Aa3
Sale Amount	\$9,790,000
Expected Sale Date	01/10/13
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, January 07, 2013 --Moody's Investors Service has assigned a Aa3 rating to the Village of Summit's (WI) \$9.8 million General Obligation Refunding Bonds, Series 2013A. Concurrently, Moody's has affirmed the Aa3 rating on the village's outstanding general obligation unlimited tax debt. Post-sale, the village will have \$11.3 million of general obligation debt outstanding, of which \$11.0 million is rated by Moody's.

SUMMARY RATING RATIONALE

Debt service on the bonds is secured by the village's general obligation unlimited tax pledge. Proceeds of the bonds will refund certain outstanding maturities of the village's 2001 Clean Water Fund Loan and 2006 General Obligation Bonds. The purpose of the refunding is to capture interest savings estimated at 2.6% of refunded par and to achieve more level debt service payments for the village's Utility District No. 2 by extending the term of the debt associated with the village's 2001 Clean Water Fund Loan by one year. Assignment and affirmation of the Aa3 rating reflects the village's moderately sized tax base in affluent Waukesha County (general obligation rated Aaa/stable outlook), healthy financial position despite a planned use of reserves, and a manageable debt burden.

STRENGTHS:

- Residents benefit from access to employment centers in Waukesha County, Madison (general obligation rated Aaa/stable outlook), and Milwaukee (general obligation rated Aa2/stable outlook)
- Income indices track well above state and national medians

CHALLENGES:

- Strict levy limits restrict village's revenue raising flexibility
- Enterprise Funds not self-supporting

DETAILED CREDIT DISCUSSION

MODERATELY SIZED TAX BASE INCORPORATED IN 2010; BEDROOM COMMUNITY WEST OF MILWAUKEE IN WAUKESHA COUNTY

Despite four consecutive years of valuation declines, we expect the village's tax base to grow over the long term due to the availability of land for future development as well as a location that affords residents favorable access to nearby employment centers. Summit is located roughly 30 miles west of Milwaukee and 50 miles east of Madison and encompasses 24 square miles in Waukesha County.

The village's moderately sized \$939 million tax base grew rapidly through 2007 before growth stalled. Over the last five years, the tax base has declined at an average annual rate of 2.7%. The village is predominately residential (89.5% of 2012 full valuation) and the recent declines largely reflect depreciation in the residential sector. However, a portion of the decline is also attributable to the transfer of a large tract of land to the neighboring City of Oconomowoc (general obligation rated Aa2). Prior to the village's incorporation in July 2010, the village's tax base was vulnerable to a loss of value due to annexation by neighboring cities and villages. As part of its 1999 boundary agreement with the City of Oconomowoc, the village transferred a large tract of land, including three residential subdivisions, to the city in January 2010. The 4.7% decline in full valuation reported in 2010, as well as the decline in population, was largely due to the transfer of the land. The village has a significant amount of land available for future development, including 40 acres along I-94. In addition, 65 lots are platted and currently available for residential development with an additional 200 single family homes expected to be developed over the medium term as part of the Pabst Farms development. Management reports a small uptick in building permits after very little development in recent years.

At 4.9% in October 2012, Waukesha County's unemployment rate tracked lower than both the state and national rates of 5.7% and 7.5%, respectively, during the same time period. The county's resident income profile is higher than both state and national medians with per capita income at 138% and 134.5% of state and national medians.

SATISFACTORY FINANCIAL PROFILE; SIZEABLE PORTION OF GENERAL FUND BALANCE COMMITTED FOR CAPITAL PROJECTS

We expect the village's financial profile to remain healthy due to currently healthy levels of reserves. After closing fiscal 2009 with a sizeable \$993,000 operating surplus due to a payment-in-lieu-of-taxes, the village has closed fiscal 2010 and 2011 with modest operating deficits. At the close of fiscal 2011, the village's General Fund balance totaled \$1.8 million, or a very healthy 72.1% of General Fund revenues. A large portion, \$1.2 million, of the General Fund balance is currently committed for renovations to the village's existing Village Hall though there is no timeline identified for the project. Management reports that the unassigned portion of the General Fund balance is a better measure of available reserves and the village's formal General Fund balance policy is to hold at least 15% of General Fund revenues in unassigned reserves. The unassigned portion totaled \$388,000, or a still satisfactory 15.8% of General Fund revenues at the close of fiscal 2011.

Preliminary results indicate a modest operating surplus in 2012 despite some unbudgeted election-related expenditures. In an effort to increase efficiencies in service delivery, the village entered into an agreement in 2011 to provide police services for the neighboring village of Dousman beginning in 2012. The village's fiscal 2013 budget is largely unchanged from 2012 and includes an overall levy increase of approximately 1%. Property taxes are the village's largest source of General Fund revenues and comprised 51.4% of General Fund revenues in 2011. Other large revenue sources include charges for services and intergovernmental aid, which comprised 21.8% and 14.6% of revenues in fiscal 2011.

MANAGEABLE DEBT BURDEN; MINIMAL FUTURE BORROWING PLANNED

At 1.2% and 2.4% of full valuation, the village's direct and overall debt burden are in line with state and national medians. We expect the village's debt profile to remain manageable due to its average size and minimal future borrowing plans. Management reports that the village may utilize a State Trust Fund Loan of up to \$165,000 later in 2013 to finance capital improvements. Principal amortization is slower than average, though well within the useful life of the assets financed, with 65.3% of debt retired within 10 years. Debt service comprised a modest 6.0% of operating expenditures in fiscal 2011. All of the village's debt is fixed rate and the village is not a party to any interest rate swap agreements.

WHAT COULD MOVE THE RATING UP:

- Maintenance of current level of liquidity and reserves
- Sustained growth and diversification of the village's tax base

WHAT COULD MOVE THE RATING DOWN:

- Deterioration of the village's tax base and resident income profile
- Reduction in village's reserves and liquidity to a level not in line with the current rating category

KEY STATISTICS

2010 Census population: 4,674 (6.5% decrease since 2000)

2012 Full valuation: \$939 million

Estimated full valuation per capita: \$200,896

Direct debt burden: 1.2%

Overall debt burden: 2.4%

Principal amortization (10 years): 65.3%

Waukesha County per capita income (2006-2010 American Community Survey estimates): \$36,752 (138% of WI; 134.5% of US)

Waukesha County median family income (2006-2010 American Community Survey estimates): \$89,799 (138.4% of WI; 142.6% of US)

Waukesha County unemployment rate (October 2012): 4.9% (state at 5.7%; US at 7.5%)

Fiscal 2011 General Fund balance: \$1.8 million (71.9% of General Fund revenues)

Post-sale general obligation unlimited tax debt outstanding: \$11.3 million

Post-sale Moody's rated general obligation unlimited tax debt outstanding: \$11.0 million

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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