

## CREDIT OPINION

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New Issue

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## Shorewood, WI

New Issue - Moody's Assigns Aa2 to Shorewood, WI's GO Bonds Series 2016A

### Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the Village of Shorewood WI's \$10.2 million General Obligation Corporate Purpose Bonds, Series 2016A. Concurrently, Moody's maintains a Aa2 rating on the village's outstanding general obligation unlimited tax (GOULT) debt. Post-sale, the village will have \$54.8 million in GOULT debt.

The Aa2 rating reflects the village's moderately sized tax and affluent tax base just north of the City of Milwaukee (Aa3 stable); sound financial profile characterized by prudent management and healthy reserve levels; elevated debt burden and relatively modest pension liabilities.

### Credit Strengths

- » Affluent tax base with close economic ties with larger Milwaukee metro region
- » Sound financial profile characterized by prudent management and healthy reserve levels

### Credit Challenges

- » Elevated debt burden
- » High fixed costs

### Rating Outlook

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

### Factors that Could Lead to an Upgrade

- » Material tax base appreciation and/or improvement of resident wealth indices
- » Moderation of the village's debt burden and reduced fixed costs

### Factors that Could Lead to a Downgrade

- » Tax base depreciation and or/weakening of resident income indices
- » Declines in available operating reserves or available liquidity
- » Growth of the village's debt burden or increased fixed costs

## Key Indicators

Exhibit 1

Shorewood (Village of) WI	2011	2012	2013	2014	2015
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 1,419,304	\$ 1,300,467	\$ 1,330,875	\$ 1,431,921	\$ 1,497,728
Full Value Per Capita	\$ 107,858	\$ 98,865	\$ 100,824	\$ 108,110	\$ 113,636
Median Family Income (% of US Median)	143.6%	147.3%	151.8%	158.3%	158.3%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 12,215	\$ 11,499	\$ 20,389	\$ 13,552	\$ 14,452
Fund Balance as a % of Revenues	35.4%	31.4%	40.0%	33.3%	32.6%
Cash Balance as a % of Revenues	69.8%	81.3%	68.5%	73.8%	69.0%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 25,981	\$ 37,501	\$ 39,030	\$ 38,172	\$ 43,426
Net Direct Debt / Operating Revenues (x)	2.1x	3.3x	1.9x	2.8x	3.0x
Net Direct Debt / Full Value (%)	1.8%	2.9%	2.9%	2.7%	2.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.3x	0.2x	0.4x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.2%	0.3%	0.4%	0.6%

Post-sale, the village's net direct debt will total \$48.3 million and 3.2% of full valuation.

Source: Audited Financial Statements

## Recent Developments

Since the village's last rating report on December 31, 2014, audited results for fiscal 2015 reflect essentially balanced General Fund operations. Tax base growth of 4.6% increased the village's tax base valuation to \$1.5 billion.

## Detailed Rating Considerations

### Economy and Tax Base: Wealthy Tax Base Closely Tied to Milwaukee Metro Area

The village's tax will likely continue to benefit from its favorable location just north of Milwaukee along Lake Michigan. Valued at \$1.5 billion in 2015, the village's tax base has rebounded after the most recent economic downturn, growing by 15% since 2012. At 81% in 2015, the village is largely residential but also benefits from a growing commercial sector which accounted for 18% of valuation over that same period. Recent growth has been spurred by appreciation of existing property and redevelopment of several commercial areas. The village has four tax increment district's (TID) that expire in 2022, 2027, 2028 and 2029. Due to strong performance across several districts, the village may elect to close certain district's before the scheduled expiration. Notable development within the TIDs includes an assisted living facility, multi-family housing, and a two story Metro Market grocery store and parking structure. Resident income indices are above average and are estimated at 158.3% of the national median. At 5.3% as of April 2016, the county's unemployment rate was higher than state and national figures of 4.3% and 4.7%, respectively.

### Financial Operations and Reserves: Sound Financial Profile Supported by Prudent Management and Healthy Reserves

We expect the village's financial profile to remain a credit strength, given prudent management and healthy reserve levels. The village ended fiscal 2015 with essentially balanced General Fund operations and available General Fund reserves (unassigned and assigned portions) of \$4.7 million and 43.4% of revenues. Across the village's main operating funds (combined General and Debt Service funds) available operating reserves totaled \$4.7 million and a healthy 32.6% of operating fund revenues. The village's available fund balance is net of \$1.2 million in advances to village enterprise funds that are expected to be repaid over the next several years. The village budgeted for balanced operations in fiscal 2016 and anticipates ending the year with a \$200,000 increase unassigned General Fund reserves.

## LIQUIDITY

Village liquidity is sound and totaled \$10.0 million and 69% of operating revenues at the close of fiscal 2015.

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](http://www.moody's.com) for the most updated credit rating action information and rating history.

### Debt and Pensions: Elevated Debt Burden; Modest Pension Liabilities

At 3.2% and 7.6%, the village's direct and overall debt burdens are above average. The village's high overlapping debt is largely attributable to the borrowing of the Milwaukee County (Aa2 stable), Milwaukee Metropolitan Sewer District (Aa1 stable), and the Shorewood School District (Aa2). Debt service expenditures accounted for an above average 25% of operating revenues in fiscal 2015. The village's overall fixed costs (combined debt service, pension and other post employment benefit expenditures) totaled \$4.3 million and 29.8% of operating fund revenues. The village's near-term debt plans include approximately \$6.5 million in GO bonds for economic development projects within TID 5 in fiscal 2017. Favorably, the village's debt burden is expected to steadily decline over the medium-term, due to a planned reduction in debt issuances and increased usage of utility revenue debt.

#### DEBT STRUCTURE

All of the village's debt is fixed rate and long-term. An average 68% of principal is set to be retired over the next ten years.

#### DEBT-RELATED DERIVATIVES

The village has no derivative exposure.

#### PENSIONS AND OPEB

Costs associated with the village's exposure to the state multi-employer pension plan, the Wisconsin Retirement System (WRS), are expected to remain manageable. The village has historically made its required contributions to WRS. In 2015 the village's contribution was \$397,000 or a modest 3% of operating fund revenues. The three year average Moody's adjusted net pension liability (ANPL) for the village, under our methodology for adjusting reported pension data, was \$8.3 million, or 0.6% of full value and 0.6 times operating revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the village's reported contribution information, but to improve comparability with other rated entities. We determined the village's share of liability for WRS in proportion to its contributions to the plan and covered payroll.

The village administers a single-employer defined benefit healthcare plan. The plan is funded on a pay-as-you-go basis and 2015 contributions totaled \$243,000 or 1.7% of operating revenues. As of December 31, 2015, the most recent actuarial valuation date for the plan, the unfunded actuarial accrued liability was \$2.8 million.

### Management and Governance: Moderate Institutional Framework; Sound Financial Management

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.

The village's financial management is sound as indicated by its strong operating history and use of multi-year operating projections and long-range capital planning. The village has a fund balance policy that targets an unassigned General Fund balance of 30% of revenues. At 66% in fiscal 2015, the village is primarily property tax funded. As of fiscal 2016, the village maintained \$1.4 million in unused levy capacity.

### Legal Security

All of the village's GOULT debt, including the current issuance, is secured by a dedicated property tax levy, unlimited as to rate or amount.

### Use of Proceeds

Proceeds from the Series 2016A bonds will be used to finance a variety of infrastructure improvements and the construction of a new police facility. Remaining proceeds will be used to refund outstanding GOULT debt for expected net present value savings.

### Obligor Profile

The Village of Shorewood is located just north of the City of Milwaukee, along the Lake Michigan shoreline. The village provides a variety of services to a population of 13,180.

## 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.moodys.com](http://www.moodys.com) for a copy of this methodology.

## Ratings

Exhibit 2

### Shorewood (Village of) WI

Issue	Rating
General Obligation Corporate Purpose Bonds, Series 2016A	Aa2
Rating Type	Underlying LT
Sale Amount	\$10,235,000
Expected Sale Date	07/20/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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