

## CREDIT OPINION

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New Issue

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# Shorewood (Village of) Sewer Utility, WI

New Issue: Moody's Assigns Initial A1 to Shorewood, WI's \$2.4M Sewerage System Rev. Bonds, Ser. 2016B

## Summary Rating Rationale

Moody's Investors Service has assigned an initial A1 rating to the Village of Shorewood, WI's \$2.4 million Sewerage System Revenue Bonds, Series 2016B. The A1 rating reflects the sewer system's modestly-sized scale of operations; improved financial position; adequate total debt service coverage; and satisfactory legal provisions.

## Credit Strengths

- » Rate setting authority held at the local level
- » Above average resident wealth indices

## Credit Challenges

- » Small scale of operations

## Rating Outlook

Outlooks are typically not assigned to local governments with this amount of debt.

## Factors that Could Lead to an Upgrade

- » Significant expansion of the system's customer base
- » Strengthening of debt service coverage and system liquidity
- » Moderation of the system's debt ratio

## Factors that Could Lead to a Downgrade

- » Sustained trend of decreased usage and/or revenue
- » Increases to the system's long-term liabilities
- » Narrowed debt service coverage or liquidity

## Key Indicators

Exhibit 1

### Shorewood (Village of) Sewer Utility, WI

System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	61 years				
System Size - O&M (in \$000s)	1,119				
Service Area Wealth: MFI % of US median	158.3%				
Legal Provisions					
Rate Covenant (x)	1.25				
Debt Service Reserve Requirement	DSRF funded at lesser of standard 3-prong test				
Financial Strength					
	2011	2012	2013	2014	2015
Operating Revenue (\$000)	1,650	1,740	1,986	2,048	2,177
O&M (\$000)	1,325	1,121	1,147	1,129	1,109
Long-Term Debt (\$000)	2,950	7,210	6,853	7,549	7,087
Annual Debt Service Coverage (x)	1.31	2.48	1.55	1.67	1.62
Cash on Hand	days	38 days	80 days	91 days	275 days
Debt to Operating Revenues (x)	1.8x	4.1x	3.5x	3.7x	3.3x

The above metrics do not include the current sale.

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

## Detailed Rating Considerations

### Service Area and System Characteristics: Small System Located North of Milwaukee

We expect the sewer enterprise's service area to remain stable but limited given stagnant customer growth. The utility's service area is coterminous with the [Village of Shorewood](#) (Aa2), which is located north of [Milwaukee](#) (Aa3 stable) along Lake Michigan. The system's customer base has grown nominally in the past few years to 3,565 in 2015, up 1.6% from 3,508 in 2011. Total billings have increased significantly as the village has implemented rate increases in four of the past six years. As of April 2016, the unemployment rate in [Milwaukee County](#) (Aa2 stable) was 5.3%, above both the state (4.3%) and national (4.7%) rate during the same time period. The city's demographic profile is strong, with median family income equal to 158.3% of the US, per American Community Survey estimates (2010-2014).

### Debt Service Coverage and Liquidity: Strong Senior Lien Coverage; Significant Support of GO Debt

We expect the utility's financial position to strengthen, albeit slowly, given a trend of recent rate increases and satisfactory reserve levels. Fiscal 2015 net revenue provided 1.6 times coverage of total debt service, which consisted solely of payments on general obligation (GO) bonds of the city. Post-sale, projected net revenues are expected to achieved senior lien debt service coverage of at least 6.7 times, and total debt coverage of 1.6 times. Including GO debt supported by the enterprise, maximum annual debt service (MADS) will occur in fiscal 2018, with the system projected to provide coverage of 1.3 times.

#### LIQUIDITY

The enterprise closed fiscal 2015 with \$835,000 of unrestricted cash and investments, equivalent to 272 days of O&M expenditures.

### Debt and Legal Covenants: Adequate Legal Provisions; Moderate Debt Position

We expect the system's debt burden will remain manageable based on an absence of future borrowing plans. Inclusive of the current borrowing, senior lien debt plus general obligation (GO) debt paid by the utility is a moderate 4.1 times fiscal 2015 operating revenue.

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Legal provisions for the bonds include a satisfactory rate covenant of 1.25 times, an additional bonds test is set at 1.25 times of MADS on all senior lien revenue bonds, and a debt service reserve fund fully funded to meet the lesser of 10% of principal on senior lien bonds, MADS on all outstanding bonds, and 125% of average annual debt service on outstanding bonds. Additional security includes the village's pledge to cure deficiencies for reasonable costs and services should the enterprise's revenue falls below the pledged 1.25 times annual debt service requirement, though this pledge is subject to appropriation and levy limits.

#### DEBT STRUCTURE

All of the system's debt is long-term and fixed rate. In addition to the current revenue issuance, the sewer system supports approximately \$6.5 million of general obligation (GO) debt.

#### DEBT-RELATED DERIVATIVES

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

#### PENSIONS AND OPEB

System employees participate in the Wisconsin Retirement System, a multi-employer cost-sharing defined benefit pension plan. Moody's three year average (2013-2015) adjusted net pension liability (ANPL) for the village, under our methodology for adjusting reported pension data, was \$8.3 million, or a manageable 0.6 times governmental operating revenue and 0.6% of the village's full value.

#### Management and Governance: Rate Setting Authority Held Locally

The Village of Shorewood Sewer Utility is a separate enterprise fund of the village, is governed by the Village Board, and directed by the Director of Public Works. Unlike water and electric utilities in Wisconsin (Aa2 positive), sewer rate setting authority is held at the local level. The village has consistently raised rates in recent years, with increases of 55%, 26%, 33% and 10% effective 2010, 2011, 2013, and 2015, respectively. Management reviews rates on an annual basis to determine if additional rate increases are necessary in the coming years.

#### Legal Security

Debt service on the revenue bonds is secured by a senior lien on net revenues of the village's sewer utility system.

#### Use of Proceeds

Proceeds from the Series 2016B revenue bonds will finance improvements and extensions to the village's sewer utility system.

#### Obligor Profile

The sewer utility serves customers within the Village of Shorewood, located in Milwaukee County along the western shores of Lake Michigan.

#### Methodology

The principal methodology used in this rating was US Municipal Utility Revenue Debt published in December 2014. Please see the Ratings Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

#### Ratings

Exhibit 2

#### Shorewood (Village of) Sewer Utility, WI

Issue	Rating
Sewerage System Revenue Bonds, Series 2016B	A1
Rating Type	Underlying LT
Sale Amount	\$2,350,000
Expected Sale Date	07/20/2016
Rating Description	Revenue: Government Enterprise

Source: Moody's Investors Service

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