MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Madison, WI's $51.7M GO Prom. Notes, Ser. 2014-A and $5.4M Taxable GO Prom. Notes, Ser. 2014-B

Global Credit Research - 11 Sep 2014

Aaa applies to $410.5M of post-sale GOULT debt; outlook stable

MADISON (CITY OF) WI
Cities (including Towns, Villages and Townships)
WI

Moody's Rating

ISSUE		RATING
General Obligation Promissory Notes, Series 2014-A		Aaa
Sale Amount	$51,655,000	
Expected Sale Date	09/16/14	
Rating Description	General Obligation	
Taxable General Obligation Promissory Notes, Series 2014-B		Aaa
Sale Amount	$5,395,000	
Expected Sale Date	09/16/14	
Rating Description	General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, September 11, 2014 --Moody's Investors Service has assigned a Aaa rating to the City of Madison, WI's $51.7 million General Obligation (GO) Promissory Notes, Series 2014-A and $5.4 million Taxable GO Promissory Notes, Series 2014-B. Proceeds of the Series A notes will finance projects that are part of the city's 2015 capital improvement plan while proceeds of the Series B notes will finance economic development projects for the city. Debt service on both series of notes is secured by the city's general obligation unlimited tax pledge which is not limited by rate or amount. Moody's also maintains the Aaa rating on the city's outstanding GOULT debt, which totals $410.5 million post-sale. The outlook remains stable.

SUMMARY RATING RATIONALE

The Aaa rating reflects the city's large and diverse economy that benefits from significant institutional presence, sound financial operations with a history of healthy reserves, and a manageable debt burden supported by rapid principal amortization. The stable outlook reflects our expectation that the tax base will remain a driver of the local economy and the city's financial profile will remain sound.

STRENGTHS

-Strong and diverse economy that benefits from the presence of the University of Wisconsin-Madison and the capital of the State of Wisconsin (Aa2/stable outlook)

-Healthy General Fund reserve levels

-Rapid principal amortization

CHALLENGES

-Strict levy limits reduce the city's revenue raising flexibility for operations

DETAILED CREDIT DISCUSSION

LARGE AND DIVERSE TAX BASE SERVES AS HOME TO WISCONSIN STATE CAPITAL AND FLAGSHIP UNIVERSITY OF WISCONSIN CAMPUS

The city of Madison's economy is expected to remain strong going forward due to ongoing investment in the tax base as well as the institutional presence provided by the University of Wisconsin's flagship campus and the state capital. The University of Wisconsin at Madison campus is the state university system's largest and has a sizeable enrollment of more than 42,000, which accounts for roughly 20% of the city's total population. The university and its affiliated hospital and clinics are the city's top and third largest employer, with 21,600 and 7,900 employees, respectively. The state is the city's second largest employer with more than 16,000 employees. In addition to the sizeable public sector presence, software development, biomedical research, and technology firms have become a larger component of the city's economy. Epic Systems, a large electronic medical records company located in nearby Verona (Aa2), has been growing rapidly and is now the fourth largest employer (with 6,700 employees) in the region.

The sizeable $22.7 billion tax base returned to growth mode in 2014 with a 3.9% increase. Inclusive of three modest declines between 2010 and 2012, the tax base has declined by a modest 0.4% annually since 2009. Residential construction in the city has increased in the last two years leading to tax base growth. After dropping each year since 2005, the number of housing units constructed in Madison has grown annually since 2011. In 2013, 2,041 dwelling units were constructed, the largest number since 2005. Given robust building permit activity and ongoing development, we expect the tax base to grow again in 2015. The city's unemployment rate continues to trend significantly below the state and nation; in June 2014 it stood at 4.3%, below the 6.0% rate for the state and 6.3% for the US. The city's demographic profile is strong and median family income stood at 121.3% of the national median, according to the 2008-2018 American Community Survey estimates.

SOUND FINANCIAL OPERATIONS BENEFIT FROM STRONG BUDGETARY CONTROL AND STABLE RESERVE LEVELS

While the General Fund balance declined in fiscal 2013, we expect the city's financial profile to remain sound given conservative budgeting practices and the presence of healthy reserves. After closing with three consecutive General Fund operating surpluses, the city ended fiscal 2013 with a $6.2 million draw on fund balance. The draw was due in part to losses in the mark to market value of investments as well as $2 million worth of one-time costs. For fiscal 2014, management reports revenues are currently tracking approximately $1 million ahead of budget due to strong room tax and building permit revenues. Expenditures are also tracking ahead of budget, by approximately $500,000 to $600,000 due to snow and ice removal costs associated with a severe winter. Management has allocated some of its contingent reserve and approved additional borrowing towards the removal and treatment of trees that have been affected by the emerald ash borer infestation. Over the next several years, management expects to treat and/or remove as many as 40,000 trees affected by the infestation. At this point, management expects to close fiscal 2014 with a similar reserve position as in 2013. At the close of fiscal 2013, the city's General Fund balance totaled $59.8 million, or a healthy 24.3% of revenues. The city's fiscal 2015 budget is currently under development and will absorb the operations of a fire station that had been previously staffed using federal grant funds. The budget will also include approximately $300,000 for increased tipping fees associated with a expansion of the county landfill. Due to some net new construction in the tax base and strong room tax receipts, management expects to be able to absorb the additional costs in 2015 and may use reserves but do not expect to draw to a level below its policy goals. The city has a policy of maintaining 15% of its budgeted expenditures in its unassigned General Fund reserve and was in compliance with this policy at the close of fiscal 2013.

Property taxes are the city's largest source of General Fund revenue and comprised 76.1% of revenues in fiscal 2013. Other large sources of revenue for the city include intergovernmental aid (14.5%) and charges for services (4%).

ABOVE AVERAGE DEBT PROFILE; RAPID PRINCIPAL AMORTIZATION

At 2.0% and 3.3% of full valuation, the city's direct and overall debt burden are slightly elevated compared to the national median; however, the property tax-exempt status of the sizeable state, university and healthcare facilities likely increases the city's debt burden. We expect the city's debt profile to remain manageable due to rapid principal amortization. The city annually issues debt for capital projects. Principal amortization is rapid with 98.2% of all debt retired in 10 years. All of the city's debt is fixed rate and the city's is not party to any interest rate swap agreements.

The city's exposure to the state multi-employer pension plan, the Wisconsin Retirement System (WRS), is expected to remain manageable. The city's contribution to WRS in fiscal 2013 totaled approximately $29.9 million. The city has historically made its required contributions to WRS, and going forward will only contribute the employer share of WRS costs for employees in accordance with the state's 2011 Wisconsin Act 10 legislation, which prohibits local governments from making non-public safety and non-transit employee contributions to WRS on behalf of employees.

Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was $207 million for fiscal 2012, or 0.51 times operating revenues, inclusive of the General Fund and Debt Service Fund. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported contribution information, but to improve comparability with other rated entities. We determined the city's share of liability for WRS in proportion to its contributions to the plan and covered payroll.

WHAT COULD MOVE THE RATING DOWN:

-Significant erosion of the city's tax base and/or demographic profile

-Marked deterioration in fund balance or liquidity

KEY STATISTICS

2014 full valuation: $22.7 billion

Full valuation per capita: $95,867

Estimated median family income as % of the US: 121.3%

Fiscal 2013 available fund balance as a % of operating revenue: 21.7%

5-year change in available fund balance as a % operating revenue: 8.0%

Fiscal 2012 net cash as a % of operating revenue: 25.3%

5-year change in net cash as a % of operating revenue: 4.7%

Institutional framework score: A

5-year average operating revenue / operating expenditures: 0.95

Net direct debt burden: 0.6% of full valuation; 1.89 times operating revenue

3-year average Moody's adjusted net pension liability: 0.5% of full valuation; 0.5 times operating revenue

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

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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