

## CREDIT OPINION

8 November 2019

 Rate this Research

### Contacts

Jennifer Card +1.312.706.9983  
Bernhardt  
Analyst  
jennifer.card@moodys.com

Douglas Goldmacher +1.212.553.1477  
AVP-Analyst  
douglas.goldmacher@moodys.com

### CLIENT SERVICES

Americas 1-212-553-1653  
Asia Pacific 852-3551-3077  
Japan 81-3-5408-4100  
EMEA 44-20-7772-5454

# Fitchburg (City of) WI

## Update to credit analysis

### Summary

The city of [Fitchburg, WI's](#) (Aa1) credit attributes include a growing and diverse tax base closely tied to the [City of Madison](#) (Aaa negative), with above average resident wealth, healthy finances, and a moderate pension. The city's net direct debt levels are moderate, while the city's overall debt and fixed cost burdens are more elevated. The city has limited revenue raising flexibility due to state imposed levy limits.

### Credit strengths

- » Growing tax base benefits from proximity to Madison
- » Strong financial position with healthy liquidity

### Credit challenges

- » Limited revenue raising flexibility given state imposed levy restriction
- » High fixed costs and overall net direct debt burden

### Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt.

### Factors that could lead to an upgrade

- » Improvement of the city's socioeconomic profile and continued expansion reflected in tax base growth
- » Moderation of debt and fixed costs

### Factors that could lead to a downgrade

- » Material declines in available reserves and/ or liquidity
- » Contraction of the city's tax base or a weakened demographic profile
- » Material growth in the city's debt burden

## Key indicators

Exhibit 1

<b>Fitchburg (City of) WI</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$2,623,964	\$2,711,402	\$2,830,646	\$2,954,018	\$3,135,272
Population	26,050	26,321	27,254	27,914	28,316
Full Value Per Capita	\$100,728	\$103,013	\$103,862	\$105,826	\$110,724
Median Family Income (% of US Median)	113.3%	113.3%	111.9%	111.4%	111.4%
<b>Finances</b>					
Operating Revenue (\$000)	\$24,277	\$24,842	\$25,307	\$25,969	\$29,871
Fund Balance (\$000)	\$6,902	\$7,790	\$7,739	\$7,648	\$8,468
Cash Balance (\$000)	\$2,892	\$7,610	\$8,017	\$8,039	\$8,730
Fund Balance as a % of Revenues	28.4%	31.4%	30.6%	29.4%	28.3%
Cash Balance as a % of Revenues	11.9%	30.6%	31.7%	31.0%	29.2%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$37,362	\$41,955	\$47,245	\$51,425	\$50,890
3-Year Average of Moody's ANPL (\$000)	\$12,061	\$16,894	\$24,277	\$27,525	\$31,064
Net Direct Debt / Full Value (%)	1.4%	1.5%	1.7%	1.7%	1.6%
Net Direct Debt / Operating Revenues (x)	1.5x	1.7x	1.9x	2.0x	1.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.5%	0.6%	0.9%	0.9%	1.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	0.7x	1.0x	1.1x	1.0x

Source: Moody's Investors Service; Fitchburg's financial statements; US Census Bureau

## Profile

Fitchburg is a city in south central [Wisconsin](#) (Aa1 stable) adjacent to the City of Madison. The city covers approximately 35.2 square miles in [Dane County](#) (Aa1 stable). The city provides a variety of municipal services to a population of over 27,000.

## Detailed credit considerations

### Economy and tax base: growing tax base adjacent to Madison

We expect the city's economy will continue to remain stable given its favorable location within commuting distance to Madison, and ongoing growth. The city's \$3.4 billion tax base grew at an average annual rate of 5.4% during the last five years. Officials report strong building permit activity indicates further additional growth in coming years. The city's tax base is primarily residential (60.4%) but also maintains a significant commercial (29%) presence, which continues to exhibit growth. Major employers exist in the biotechnology, information technology, medical instrumentation, plastics and agriculture sectors. The city has used tax incentives, primarily through tax increment districts (TIDs), to encourage economic development within these sectors.

The city's population expanded significantly over the last several decades, and grew 23% between 2000 to 2010 alone. At 2.5% in August 2019, Dane County's unemployment rate is below both the state's rate of 3.3% and the national rate of 3.8%. Resident income levels are above average with median family income at 111.4% of the national level.

### Financing operations and reserves: strong financial operations and healthy reserves

The city's financial position is expected to remain strong given its trend of healthy operations and prudent fiscal management. In fiscal 2018 the city ended with a \$1.3 million surplus in the General Fund, which increased the available fund balance to \$7.6 million, or a healthy 36.4% of revenues, up from \$6.8 million or 34.6% of revenues in fiscal 2017. The surplus was driven by conservative budgeting practices on both the revenue and expenditure side. Across major operating funds (inclusive of General, Library Services, and Debt Service Funds), the city ended fiscal 2018 with an available operating fund balance of \$8.5 million, or a healthy 28.3% of revenue.

Although audited results are not yet available for fiscal 2019, unaudited results show a \$687,000 surplus in the General Fund, driven again by favorable revenue and expenditure results. For fiscal 2020 the city budgeted for a planned use of General Fund balance in the

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.

amount of \$154,000 to go towards employee retiree payments. Property taxes are the city's largest revenue source, comprising 70.8% of fiscal 2018 operating fund revenues, followed by intergovernmental aid at 9.7%.

#### LIQUIDITY

The city concluded fiscal year 2018 with a net cash balance across operating funds of \$8.7 million, or a healthy 29.2% of revenues.

#### **Debt and pensions: moderate net direct debt burden with high fixed costs; moderate pension liabilities**

Inclusive of a planned borrowing in November 2019 of \$9.6 million in general obligation (GO) debt, the city's net direct debt burden is moderate at 1.4% of full valuation or 1.6x operating fund revenue. Though ultimately secured by its general obligation (GO) pledge, a portion of the city's debt is supported by other revenue, including tax increments, and special assessments. The city's overall net debt burden is elevated relative to full value at 4.3%, of which a large portion represents significant borrowings from [Verona Area School District](#) (Aa3) and Dane County. The city plans to issue an average of \$5.6 million of new debt annually over the next ten years for development projects and capital improvements.

Fitchburg participates in the Wisconsin Retirement System (WRS), a statewide cost sharing plan. The city's employer contributions to WRS in fiscal 2018 were \$959,000 or a modest 3.2% of the city's fiscal 2018 operating revenue. Fixed costs, consisting of debt service and pension contributions, totaled \$12.2 million or 40.8% of fiscal 2018 operating revenue, however the fixed costs are inflated due to a \$3.6 million refunding in fiscal 2018. Minus the refunding, fixed costs totaled \$8.6 million or a still somewhat elevated 28.8% of revenues.

#### DEBT STRUCTURE

All of the city's debt is long-term and fixed rate. Principal amortization is average with 74.8% of debt retired within 10 years.

#### DEBT-RELATED DERIVATIVES

The city has no exposure to debt related derivatives.

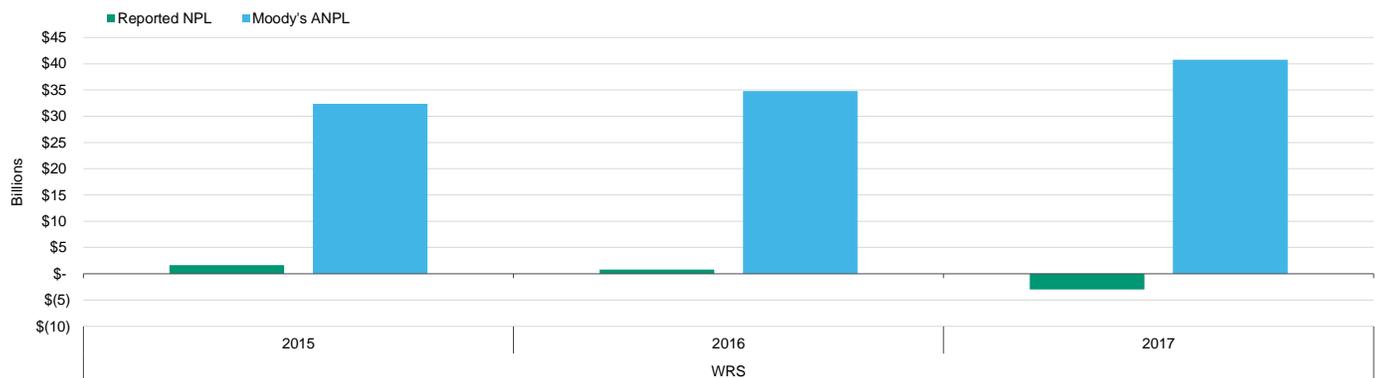
#### PENSIONS AND OPEB

The city participates in the Wisconsin Retirement System (WRS), a statewide cost-sharing plan. Contributions are determined using a level contribution actuarial method in an effort to keep employer and employee contribution rates at a level percentage of payroll over time, and are set at 100% of the plan's funding requirement. As a result, WRS remains one of the best-funded public employee retirement systems in the country, with statewide employer contributions to WRS in 2017 totaling 107.7% of the amount needed to tread water<sup>1</sup>.

The city's adjusted net pension liability (ANPL) was \$35.5 million in 2018, up from \$26.7 million in 2016, bringing the three-year average to \$30.5 million, or 1x operating revenue and 1.0% of full value. Moody's ANPL reflects the use of a market-based discount rate to value pension liabilities rather than the assumed rate of investment return on plan assets. In comparison, the reported net pension liability (NPL), based on the plan's 7.2% discount rate, was a negative \$2.6 in fiscal 2018, reflecting a net pension asset.

Growth in the Moody's ANPL has been driven largely by falling market discount rates, however the plan's NPL has benefited from strong investment performance in recent years, with WRS reported a net pension asset as of fiscal 2017. (See Exhibit 2.)

Exhibit 2

**Wisconsin Retirement System remains well-funded on a reported basis**

Source: State of Wisconsin

**Management and governance: moderate institutional framework**

The city's management team is strong, adhering to its reserve policy and long-term capital plans. The city utilizes a conservative budgetary approach and multi-year capital plan. The city's formal General Fund reserve policy is to hold between 15% and 25% of annual revenue plus the amount of state shared revenue received during the previous year in unassigned General Fund reserves.

Wisconsin cities have an Institutional Framework score of "A", which is moderate. The sector's major revenue source, property tax revenue, is subject to a cap that restricts cities from increasing their operating property tax levies except to capture amounts represented by net new construction growth. Revenues and expenditures tend to be predictable. Across the sector, fixed and mandated costs are generally high. Many cities utilize tax increment districts to attract economic development, often issuing debt to fund initial infrastructure in undeveloped areas. While tax increment districts are ultimately expected to generate revenues sufficient to cover initial city outlay, cities are exposed to economic downturns which could halt development.

## Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

### Fitchburg (City of) WI

Rating Factors	Measure	Score
<b>Economy/Tax Base (30%)</b> <sup>[1]</sup>		
Tax Base Size: Full Value (in 000s)	\$3,419,113	Aa
Full Value Per Capita	\$120,748	Aa
Median Family Income (% of US Median)	111.4%	Aa
<b>Finances (30%)</b>		
Fund Balance as a % of Revenues	28.3%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	8.5%	A
Cash Balance as a % of Revenues	29.2%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	11.3%	Aa
<b>Notching Factors:</b> <sup>[2]</sup>		
Other Analyst Adjustment to Finances Factor: Understated operating trend		Up
<b>Management (20%)</b>		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
<b>Debt and Pensions (20%)</b>		
Net Direct Debt / Full Value (%)	1.4%	Aa
Net Direct Debt / Operating Revenues (x)	1.6x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.9%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.0x	A
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa1

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: Moody's Investors Service; Fitchburg's financial statements; US Census Bureau

## Endnotes

- Employer contributions that tread water equal the sum of current year service cost and interest on reported net pension liabilities at the start of the year, using reported actuarial assumptions. If plan assumptions are met exactly, contributions equal to the tread water indicator will prevent the reported net pension liabilities from growing. Net liabilities may decrease or increase in a given year due to factors other than the contribution amount, such as investment performance that exceeds or falls short of a plan's assumed rate of return

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1202109

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454