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CREDIT OPINION
18 February 2020

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Pewaukee (Village of) WI

Update to analysis

Summary

The Village of Pewaukee (Aa2) has a history of strong, stable finances which is expected to continue moving forward. The moderately sized tax base that has seen growth in recent years benefitting from its location in Waukesha County (Aaa stable) near the City of Milwaukee (A1 negative). This also supports resident wealth indices that are slightly above the US median. Debt and pension liabilities are manageable.

Credit strengths

- Strong, stable operating reserves and liquidity
- Economic ties to City of Milwaukee and Waukesha County
- Recent history of solid tax base growth

Credit challenges

- Growth in property tax revenues constrained by strict state imposed revenue limits
- Moderate tax base size

Rating outlook

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

Factors that could lead to an upgrade

- Expansion and diversification of the village's tax base and/or strengthening of socioeconomic profile
- Material declines in the debt or pension liabilities

Factors that could lead to a downgrade

- Material declines in reserves and/or liquidity
- Significant increases in debt or pension liabilities
- Tax base contraction and/or negative shifts in demographic profile

Key indicators

Exhibit 1

Pewaukee (Village of) WI	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$899,143	$927,732	$961,387	$975,924	$998,476
Population	8,233	8,252	8,225	8,214	8,192
Full Value Per Capita	$109,212	$112,425	$116,886	$118,812	$121,884
Median Family Income (% of US Median)	120.0%	126.5%	120.6%	117.4%	117.4%
Finances					
Operating Revenue ($000)	$7,605	$7,224	$7,472	$7,603	$7,778
Fund Balance ($000)	$4,212	$3,917	$3,704	$3,807	$4,345
Cash Balance ($000)	$4,113	$3,951	$3,866	$3,520	$4,263
Fund Balance as a % of Revenues	55.4%	54.2%	49.6%	50.1%	55.9%
Cash Balance as a % of Revenues	54.1%	54.7%	51.7%	46.3%	54.8%
Debt/Pensions					
Net Direct Debt ($000)	$13,232	$12,612	$9,398	$10,294	$9,183
3-Year Average of Moody's ANPL ($000)	$3,630	$4,854	$6,785	$7,296	$7,897
Net Direct Debt / Full Value (%)	1.5%	1.4%	1.0%	1.1%	0.9%
Net Direct Debt / Operating Revenues (x)	1.7x	1.7x	1.3x	1.4x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.4%	0.5%	0.7%	0.7%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	0.7x	0.9x	1.0x	1.0x

Source: Moody's Investors Service, audited financial statements, US Census Bureau

Profile

The Village of Pewaukee (Aa2) is in Waukesha County (Aaa stable) 20 miles west of the City of Milwaukee (A1 negative). The village encompasses an area of approximately four square miles with an estimated population of 8,200.

Detailed credit considerations

Economy and tax base: moderately sized tax, growing base near Milwaukee metro

The Village of Pewaukee's location in the greater Milwaukee area will help support long-term stability. The moderately sized $1.1 billion tax base has grown for the last five years, following multiple years of declines, for a five year average annual full value growth rate of 3.4% which surpassed its 2008 pre-recession high. Management reports expectations for modest additional residential and commercial growth. The concentration of top ten taxpayers is 9.3%, largely comprised of retail and residential facilities.

Location in Waukesha County and near Milwaukee helps bolster resident socioeconomic factors. Median family income is about 117% of the national median and population has remained steady. Waukesha county unemployment as of November 2019 was 2.6%, which was lower than the state (2.9%) and nation (3.3%) during the same time period.

Financial operations and reserves: strong, stable financial position

The village has a multi-year trend of strong, stable finances which is expected to continue over the near term. The available operating fund (consisting of general and debt service funds) balance has remained between $3.7 - $4.3 million for the last five years. The $4.3 million figure is reflective of fiscal year-end 2019, and is equivalent to 55.9% of operating revenues. Though audited fiscal 2019 figures are not yet available, management anticipates growing the general fund balance by up to $50,000. That growth will help counterbalance the budgeted general fund deficit of $68,000 for fiscal 2020.

LIQUIDITY

At the close of fiscal 2018, the village held $4.3 million across its core operating funds, equivalent to 54.8% of revenues.

Debt and pensions: manageable debt and pension liabilities

The village's debt and pensions are manageable, which is expected to continue moving forward. At 1.0% of 2019 valuation and 1.4x fiscal 2018 operating revenue, the village's debt burden is moderate. The majority of the spring 2020 issuance will finance the village's 2020-2022 capital projects. The village is also spending approximately $510,000 in reserves to support these projects. The next planned capital borrowing will likely take place in 2022, but there is a possibility for another issuance in the interim dependent on the results of a current study of the public works facilities. At present there is no estimated time frame or amount as the study will not be completed before the summer.

Total fixed costs, consisting of debt service and retirement plan contributions, approximated a modest 16% of revenues.

DEBT STRUCTURE

All of the village's debt is fixed rate and slightly slow with 69% of principal is scheduled to repaid within ten years.

DEBT-RELATED DERIVATIVES

The village is not a party to any derivative agreements.

PENSIONS AND OPEB

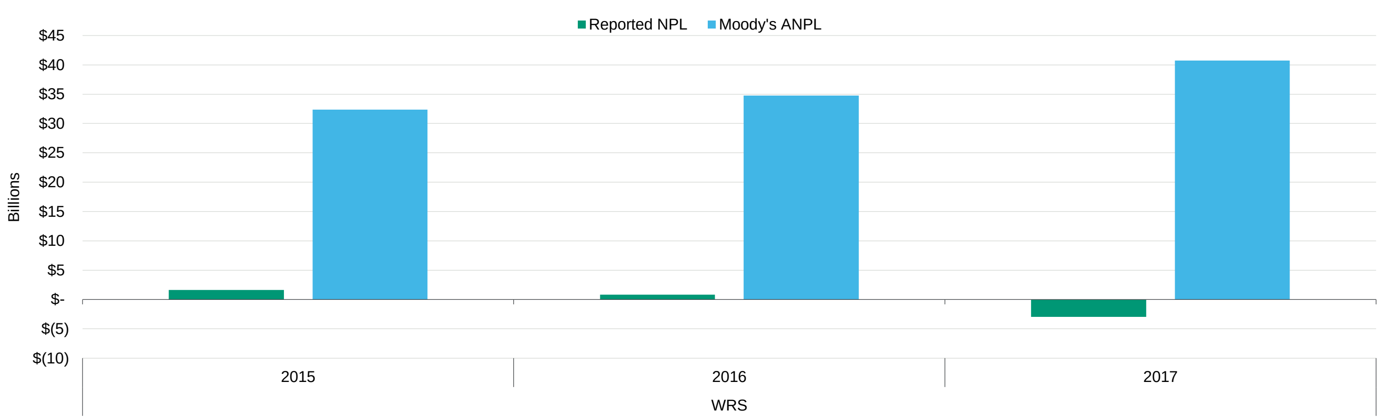
The village participates in the Wisconsin Retirement System (WRS), a statewide cost-sharing plan. Contributions are determined using a level contribution actuarial method in an effort to keep employer and employee contribution rates at a level percentage of payroll over time, and are set at 100% of the 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[1].

The village's adjusted net pension liability (ANPL) was $8.9 million in 2018, up from $7.1 million in 2016, bringing the three-year average to $7.9 million, or 1.0x operating revenue and 0.8% 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 asset, based on the plan's 7.2% discount rate, was $651,000 in fiscal 2018.

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

The village views it's other post-employment benefits (OPEB) obligations as immaterial and thus are not reported. Currently there are 6 individuals receiving benefits.

Management and governance: moderate Institutional Framework

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

Rating Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$1,060,241	A
Full Value Per Capita	$129,424	Aa
Median Family Income (% of US Median)	117.4%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	55.9%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	5.2%	A
Cash Balance as a % of Revenues	54.8%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	3.5%	A
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.0%	Aa
Net Direct Debt / Operating Revenues (x)	1.4x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.7%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.0x	A
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa2

[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.
Source: Moody's Investors Service, audited financial statements, US Census Bureau

Endnotes

1 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.

REPORT NUMBER 1211075

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