

CREDIT OPINION

18 March 2020

 Rate this Research

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Somers (Village) WI

Update to credit analysis following upgrade

Summary

[Somers \(Village of\), WI](#) (A1) credit profile benefits from the village's strong financial performance leading to healthy reserves and liquidity as well as a modestly-sized tax base benefitting from proximity to [Milwaukee](#) (A1 negative). The credit profile also incorporates an elevated yet manageable debt burden and below average wealth and income.

On March 13, we upgraded the village's general obligation unlimited tax (GOULT) rating to A1 from A3.

Credit strengths

- » Prudent management team leading to satisfactory financial profile with healthy reserves and liquidity
- » Favorable location with interstate access to Milwaukee, WI

Credit challenges

- » Elevated debt profile
- » Below average resident wealth and income

Rating outlook

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

Factors that could lead to an upgrade

- » Improvement in resident wealth and income
- » Material growth in the tax base

Factors that could lead to a downgrade

- » Reduction in operating reserves and/or liquidity
- » Notable increase in debt burden
- » Decline in tax base or resident wealth and income

Key indicators

Exhibit 1

Somers (Village) WI	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$741,007	\$719,825	\$674,803	\$770,606	\$834,543
Population	8,156	8,256	8,305	8,334	8,334
Full Value Per Capita	\$89,754	\$86,632	\$81,253	\$92,465	\$100,137
Median Family Income (% of US Median)	110.5%	110.5%	110.5%	110.5%	113.9%
Finances					
Operating Revenue (\$000)	\$4,644	\$5,214	\$5,951	\$6,770	\$7,020
Fund Balance (\$000)	(\$234)	\$527	\$2,750	\$3,782	\$4,873
Cash Balance (\$000)	\$8,562	\$9,126	\$8,662	\$9,596	\$10,173
Fund Balance as a % of Revenues	-5.0%	10.1%	46.2%	55.9%	69.4%
Cash Balance as a % of Revenues	184.4%	175.0%	145.6%	141.7%	144.9%
Debt/Pensions					
Net Direct Debt (\$000)	\$18,976	\$17,746	\$21,368	\$14,262	\$19,969
3-Year Average of Moody's ANPL (\$000)	\$1,934	\$2,684	\$3,645	\$3,975	\$5,266
Net Direct Debt / Full Value (%)	2.6%	2.5%	3.2%	1.9%	2.4%
Net Direct Debt / Operating Revenues (x)	4.1x	3.4x	3.6x	2.1x	2.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.3%	0.4%	0.5%	0.5%	0.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.4x	0.5x	0.6x	0.6x	0.8x

Sources: Moody's Investors Service; Somers' audited financials; US Census Bureau

Profile

The Village of Somers is located in [Kenosha County](#) (Aa3) in southeastern [Wisconsin](#) (Aa1 stable), approximately 30 miles south of Milwaukee. Between the Village and the Town of Somers, population is approximately 10,057. The largest industry sectors that drive the local economy are retail trade, health services and local government.

Detailed credit considerations

Economy and Tax Base: modestly sized tax base in Kenosha County

We expect the local economy to remain stable going forward given resident access to employment centers in Milwaukee and the northern suburbs of Chicago (Ba1 stable). The village, which is located 32 miles south of Milwaukee, is modestly sized at \$896 million in 2019. The tax base is primarily residential. Residents generally commute to nearby employment centers in [Milwaukee County](#) (Aa2 stable) and [Kenosha County](#) (Aa3).

The village and town also benefit from the nearby presence of two universities, University of Wisconsin- Parkside and Carthage College, located in Kenosha County. Resident income is below-average with MFI at 78% of the of national median. With 3.6% unemployment as of December 2019, the village is in line with the state (3.2%) and nation (3.4%). Major employers include [Amazon](#) (senior unsecured — dominant currency: A2 positive; 4,000 employees) and Uline (2,600) which are also two of the three largest employers.

Financial operations and reserves: healthy financial profile; prudent management team

The financial profile is likely to continue to remain healthy, supported by conservative budgeting practices and prudent expenditure management. Historical financial performance has been strong, with operating fund revenues outpacing expenditures in four of the past six years. The village closed fiscal 2018 with an available operating fund balance of \$4.9 million, or a healthy 69% of operating revenue, a significant improvement since fiscal 2014 when the available fund balance was negative \$183,000 or extremely weak negative 3.9% of revenues. Property taxes are the village's largest source of revenue, comprising 79.3% of fiscal 2018 operating

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revenue, followed by intergovernmental income and charges for service at 6.4% and 4.4%, respectively. A balanced budget was adopted for fiscal 2019; however management anticipates positive variances, because of the close monitoring of revenue and expenditures.

LIQUIDITY

The village cash position will remain healthy given conservative practices and balanced budget. The village ended fiscal 2018 with an operating net cash position of \$10.2 million, or a strong 145% of operating revenue, however this figure is overstated as it includes property taxes collected on behalf of overlapping entities. Net of \$12.7 million because of other governments, the city held \$3.1 million in or a still healthy 67.2% of operating revenue. The village maintains additional liquidity in other special purpose funds. A combined enterprise fund for the village's water and two sewer utilities had \$7.2 million or a substantial 1,575 in days cash on hand.

Debt and Pensions: manageable debt burden and low pension burdens

We expect the village's debt profile to remain manageable given near-term borrowing plans that include modest use of reserves and state grants. The village's direct debt burden is an above-average 2.2% of full valuation and 2.84 times operating revenue. The overlapping debt burden is a high 4.8% of full value, and is primarily attributed to Kenosha County and Kenosha School District 1.

DEBT STRUCTURE

All of the village's long-term debt is fixed rate. Principal amortization is average with 80.9% retired in 10 years.

DEBT-RELATED DERIVATIVES

The village has no exposure to derivatives.

PENSIONS AND OPEB

Somers 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 2018 totaling 152.9% of the amount needed to tread water.

Moody's adjusted net pension liability (ANPL) for the village, under our methodology for adjusting reported pension data, was \$8.0 million in fiscal 2018, an 18.5% increase from the fiscal 2017 ANPL of \$3.7 million. The increase reflects various factors, including plan asset underperformance relative to plan assumptions and the decline in the Citi Pension Liability Index rate, which is the discount rate we use to calculate the ANPL. Despite the increase, the village's ANPL remains low at 0.96% of full valuation and 1.1 times operating revenue.

The village's other post-employment benefits (OPEB) are funded on a pay-as-you-go basis and do not pose a material cost. The Village recognized an OPEB liability of \$1,147,677 for the year ended December 31, 2018. Total fixed costs are manageable at 18% of total revenues and include the village's annual debt service payment and pension contributions.

ESG considerations

Environmental risks represent a medium challenge to the village's credit profile although other near areas within Kenosha County have higher risk given its proximity to Lake Michigan. Extreme rainfall leading to land erosion exposure has sometimes been an issue for Kenosha County, a problem that could become more severe over time possible affecting the regional economy, property values and tax base growth. The region exposure to erosion is mitigated by state and regional hazard mitigation plan.

Social factors are not material except to the extent MFI is discussed above.

The Village benefits from a prudent management team that instituted financial planning practices and policy changes resulting in favorable financial performance over the past three fiscal years after recovering from a period of negative reserves and weak budgetary performance. The Village Board is composed of seven Trustees which includes a President who is elected as provided by Wisconsin Statutes. Each of the Board members is elected to a two-year staggered term.

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. Revenue and expenditures tend to be predictable. Across the sector, fixed and mandated costs are generally high. Expenditures are somewhat flexible, as collective bargaining is allowed for public safety employees but is curbed for non-public safety employees.

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 2

Somers (Town of) WI

Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$896,047	A
Full Value Per Capita	\$107,517	Aa
Median Family Income (% of US Median)	113.9%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	69.4%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	77.5%	Aaa
Cash Balance as a % of Revenues	144.9%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	19.2%	Aa
Notching Factors: ^[2]		
Other Analyst Adjustment to Finances Factor: Financial reserves to moderate		Down
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.1x	Aaa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.2%	A
Net Direct Debt / Operating Revenues (x)	2.8x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.6%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.8x	Aa
	Scorecard-Indicated Outcome	Aa3
	Assigned Rating	A1

[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.

Sources: US Census Bureau, Moody's Investors Service, and audited financials

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