

CREDIT OPINION

18 March 2020

 Rate this Research

Contacts

Francisco Gonzalez +1.214.979.6863
Associate Lead Analyst
francisco.gonzalez@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

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

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 for the most updated credit rating action information and rating history.

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

© 2020 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/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE 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 INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER 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. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS 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, ASSESSMENTS, OTHER OPINIONS, AND 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, ASSESSMENTS, OTHER OPINIONS OR 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.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND 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 its 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, ASSESSMENT, 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 credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.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 credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit 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.

Contacts

Francisco Gonzalez +1.214.979.6863
Associate Lead Analyst
francisco.gonzalez@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