Summary:
Waterford Village, Wisconsin; General Obligation

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Table Of Contents
Rationale
Outlook
Related Research
Summary:
Waterford Village, Wisconsin; General Obligation

Credit Profile

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Due Date</th>
<th>Rating</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$7.415 mil taxable note anticipation notes dtd 02/12/2020 due 04/01/2024</td>
<td></td>
<td></td>
<td>A+/Stable</td>
<td>New</td>
</tr>
<tr>
<td>US$2.7 mil note anticipation notes dtd 02/12/2020 due 05/01/2023</td>
<td></td>
<td></td>
<td>A+/Stable</td>
<td>New</td>
</tr>
<tr>
<td>US$2.675 mil GO corp purp bnds dtd 02/12/2020 due 04/01/2034</td>
<td></td>
<td></td>
<td>AA-/Stable</td>
<td>New</td>
</tr>
</tbody>
</table>

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to the Village of Waterford, Wis.' general obligation (GO) corporate purpose bonds. At the same time, S&P Global Ratings assigned its 'A+' long-term rating to the village's tax-exempt note anticipation notes (NANs) and taxable NANs. We also affirmed our 'AA-' rating on the village's existing GO debt. The outlook on all ratings is stable.

The GO corporate purpose bonds are secured by unlimited ad valorem property taxes. Proceeds from the GO corporate purpose bonds will be used to finance improvements to the village fire engine house and to current-refund an outstanding private placement bank loan.

Under our criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors’ Creditworthiness," published Nov. 20, 2019, we rate both NANs one notch lower than the village's general creditworthiness, as reflected in the GO rating, due to the appropriation risk associated with debt service payments. The NANs are not general obligations of the village and debt service is subject to annual budgetary appropriation. We apply long-term ratings because the NANs mature in three and four years. The tax-exempt and taxable NANs are special obligations of the village, secured by proceeds on the NANs set aside for interest payments as they become due and by proceeds from the future issuance of GO promissory notes. Interest on the tax-exempt and taxable NANs will be paid semiannually until they are refunded. Interest on the taxable NANs will be capitalized.

Proceeds of the tax-exempt NANs will be used for interim financing for public purposes, including paying costs of sewer projects. The taxable NANs will be used to pay the costs of tax increment district (TID) infrastructure projects and to current-refund outstanding obligations.

Credit overview
Located southwest of Milwaukee in western Racine County, Waterford benefits from participation in the Racine metropolitan statistical area (MSA), and its proximity to the Milwaukee and Chicago MSAs. The village is preparing for
future growth in anticipation of Foxconn Technology Group's advanced display manufacturing campus, which is currently under construction in the nearby village of Mount Pleasant. The village has reported slight general fund deficits in recent years; however, the 2020 budget shows a slight surplus, and the village has historically maintained reserve levels that we view as very strong. Due to these factors, we expect budgetary performance will remain adequate over the two-year horizon. Offsetting these positive credit factors is the village's overall net debt burden, which we consider elevated.

The rating reflects our assessment of the village's:

- Adequate economy, with market value per capita of $87,562 and projected per capita effective buying income at 106.7% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with a slight operating deficit in the general fund and an operating deficit at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 47% of operating expenditures;
- Very strong liquidity, with total government available cash at 96.1% of total governmental fund expenditures and 4.8x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 20.0% of expenditures and net direct debt that is 149.6% of total governmental fund revenue; and
- Adequate institutional framework score.

**Adequate economy**

We consider Waterford's economy adequate. The village, with an estimated population of 5,965, is located in Racine County. The village has a projected per capita effective buying income of 106.7% of the national level and per capita market value of $87,562. Overall, the village's market value grew by 9.7% in 2018 to $522.3 million in 2019. The county unemployment rate was 3.6% in 2018.

Waterford is 30 miles southwest of Milwaukee in western Racine County. Residents have access to a wide variety of employment opportunities in the Milwaukee MSA; Racine County, which is in its own MSA; neighboring Kenosha County; and the northern suburbs of Chicago. Equalized valuation, including TIDs, rose 17% to $522.3 million from 2015 to 2019. The top 10 taxpayers represent 8.1% of equalized value excluding TIDs, which we consider very diverse.

The village is preparing for growth, largely in anticipation of Foxconn's advanced display manufacturing campus, which is under construction in nearby Mount Pleasant. From 2018 to 2019, the number of building permits issued increased 13.5%, and the valuation of those permits increased 188%. Management reports there are several planned development sites in TIDs that will include new residential, commercial, and industrial uses once completed. Management also indicates there is a shortage of housing in the village, which has driven up home prices in recent years. Overall, we view Waterford's economy as stable with moderate growth, with potential for further growth if construction of the Foxconn campus progresses.
Strong management
We view the village's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

In developing its revenue and expenditure assumptions for its annual budget, the village uses two-to-three years of historical trends and consults with the county assessor for assessed valuation information. Management provides the board with monthly budget-to-actual and treasurer's reports. Capital spending is budgeted with the help of a five-year capital improvement plan that is updated annually. The village does not maintain a long-term financial plan, nor does it have its own investment policy or a debt management policy, but it does adhere to state statutes. The village has a formal fund balance policy requiring a minimum of 25% of the following year's expenditures in the unassigned fund balance, which it has met in recent years, to address unanticipated expenditures and revenue shortfalls. Management transfers annual general fund surpluses to other funds for capital spending if Waterford is meeting its fund balance policy.

Adequate budgetary performance
Waterford's budgetary performance is adequate in our opinion. The village had slight deficit operating results in the general fund of 0.8% of expenditures, and deficit results across all governmental funds of 8.1% in fiscal 2018.

Our analysis of the village's budgetary performance accounts for the removal of one-time expenditures associated with a bond refunding that occurred in fiscal 2016 and capital outlays paid with debt proceeds in fiscal years 2016, 2017, and 2018. As of 2016, general fund results reflect management's practice to transfer surplus funds to other funds to support capital spending, after the minimum fund balance policy is met.

For fiscal 2019, the village structured the general fund budget with a $151,000 deficit after transfers. Management projects this budgeted shortfall could decrease to an $82,000 general fund deficit after transfers at year-end. Management attributes this anticipated shortfall to an increase in expenditures for engineering, consulting, and marketing services. For fiscal 2020, the village structured the general fund budget with a $234,000 surplus after transfers. Management attributes the anticipated surplus to higher projected revenues, especially from charges for ambulance/emergency medical services. The budgeted surplus for 2020 indicates performance could improve over the upcoming year. However, given the village's history of general fund deficits and its expectations for fiscal 2019, we anticipate that performance will likely remain adequate in the near future.

Very strong budgetary flexibility
Waterford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 47% of operating expenditures, or $1.6 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Our calculations include the assigned and unassigned portion of the general fund balance. Management indicates the village has no plans to draw down general fund reserves. Given management's projections for fiscal years 2019 and 2020, we anticipate budgetary flexibility will remain very strong over the medium term.
Very strong liquidity
In our opinion, Waterford's liquidity is very strong, with total government available cash at 96.1% of total governmental fund expenditures and 4.8x governmental debt service in 2018. In our view, the village has strong access to external liquidity if necessary.

We consider the village's access to external liquidity to be very strong based on its regular issuance of GO bonds and promissory notes. We do not consider the village's investments to be aggressive despite leeway provided by state statute, because Waterford deposits most of its funds in collateralized bank accounts. We do not anticipate that the village's liquidity score will worsen in the next few years, based on management's expectations for fiscal years 2019 and 2020, and the village's very strong nominal cash and cash equivalent position.

Very weak debt and contingent liability profile
In our view, Waterford's debt and contingent liability profile is very weak. Total governmental fund debt service is 20.0% of total governmental fund expenditures, and net direct debt is 149.6% of total governmental fund revenue.

In our debt calculations, we have provided self-support to the village's GO water utility debt. Waterford currently has an outstanding GO promissory note that was directly placed with a bank and that will be refunded with a portion of the GO corporate purpose bonds under this issue. Over the upcoming two years, the village will issue a GO promissory note to redeem the 2020 tax-exempt NAN due in 2023. Waterford also plans to issue a GO promissory note to redeem the taxable NAN, which is due in 2024. However, the timing of this issue is currently unspecified, depends on the progress of the TID projects the note will fund.

Pension and other postemployment benefits
• Beginning in 2018, the village became a participant of the Wisconsin Retirement System (WRS), a multiple-employer, defined-benefit pension plan that has in recent years routinely been among the best-funded multiple-employer pension plans in the county.

• Waterford's anticipated pension costs are modest as a share of total spending and are not likely to accelerate significantly in the medium term, especially given the pension plan's strong funded status.

• WRS was 96.5% funded (as of Dec. 31, 2018). At fiscal 2018 year-end, the village reported no liabilities associated with the plan. For fiscal 2020, it budgeted for $94,000 for pension costs, which comprises 3% of budgeted expenditures.

The plan investment rate of return assumption was lowered to 7.0% from 7.2% in late 2018. While the revised return assumption exceeds our 6.5% guideline, exposure to market volatility is mitigated because the plan employs a shared risk model where investment performance fluctuations are offset by changes in active employee contributions and in adjustments in benefit payments. Because of these features, we expect contributions will remain relatively stable, and, given the plan's strong funded status and strong contribution practices, we expect contributions will remain affordable.

Adequate institutional framework
The institutional framework score for Wisconsin cities and villages with a population less than 25,000 is adequate.
Outlook

The stable outlook reflects our view that the village will likely maintain very strong budgetary flexibility and very strong liquidity over the two-year horizon. Waterford's access to a wide variety of employment opportunities in the nearby Milwaukee and Chicago MSAs supports the stable outlook. We therefore do not anticipate changing the rating within the two-year outlook horizon.

Upside scenario

We could raise the rating if the village's key economic indicators improve, resulting in improvement to the economy score. A higher rating is also possible with improved budgetary performance, leading to consistent positive results, with an improvement to Waterford's debt burden, while maintaining very strong budgetary flexibility and liquidity.

Downside scenario

We could lower the rating if the village were to experience a weakening of budgetary performance or flexibility, causing financial factors to decline materially.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2019 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings’ public website at www.standardandpoors.com. Use the Ratings search box located in the left column.