

## CREDIT OPINION

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### New Issue

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## Village of Sussex, WI

New Issue: Moody's assigns Aa3 to Village of Sussex, WI's \$1.6M GO Notes, Ser. 2016A

### Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 rating to the Village of Sussex, WI's \$1.6 million General Obligation (GO) Promissory Notes, Series 2016A. Concurrently, Moody's maintains the Aa3 rating on the village's GO debt. Post-sale, the village will have \$27.5 million of GO unlimited tax debt.

The Aa3 rating reflects the village's moderately-sized tax base located near the City of Milwaukee (Aa3 stable); above average wealth indices; solid financial operations resulting in improved reserves; manageable debt burden; and affordable pension liabilities.

### Credit Strengths

- » Employment opportunities within the village as well as throughout Milwaukee metropolitan area
- » Solid financial operations characterized by improved reserves

### Credit Challenges

- » Slow principal amortization

### Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding

### Factors that Could Lead to an Upgrade

- » Expansion and growth of the village's tax base and/or demographic profile
- » Strengthening of the village's reserves and/or liquidity

### Factors that Could Lead to a Downgrade

- » Material reductions to reserves and/or liquidity
- » Significant tax base erosion and deterioration in the village's socioeconomic profile

## Key Indicators

Exhibit 1

### Village of Sussex, WI

Sussex (Village of) WI	2010	2011	2012	2013	2014
Economy/Tax Base					
Total Full Value (\$000)	\$ 1,156,535	\$ 1,151,032	\$ 1,125,022	\$ 1,118,932	\$ 1,202,160
Full Value Per Capita (\$000)	109,958	109,434	105,705	104,622	112,678
Median Family Income (% of US Median)	133.8%	133.8%	130.5%	130.5%	130.5%
Finances					
Operating Revenue (\$000)	10,854	7,962	8,459	11,653	9,011
Fund Balance as a % of Revenues	16.2%	37.7%	39.3%	28.4%	44.8%
Cash Balance as a % of Revenues	46.7%	71.1%	74.6%	64.8%	90.1%
Debt/Pensions					
Net Direct Debt (\$000)	30,449	21,794	18,441	23,220	21,007
Net Direct Debt / Operating Revenues (x)	2.8x	2.7x	2.2x	2.0x	2.3x
Net Direct Debt / Full Value (%)	2.6%	1.9%	1.6%	2.1%	1.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	0.2x	0.2x	N/A
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	0.1%	0.2%	N/A

Source: Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Moderately- Sized Tax Base Located Near Milwaukee

We expect the village's tax base to grow modestly over the long term given ongoing commercial and residential developments. Located in Waukesha County (Aaa Stable), the village is approximately 19 miles northwest of Milwaukee and nine miles north of the City of Waukesha (Aa1). Valued at \$1.2 billion in 2015, the village's tax base declined an average of 0.8% annually from 2008 to 2013. Trends have since reversed with new development and appreciation driving growth of 7.4% in fiscal 2014 and 1.6% in fiscal 2015. Though predominantly residential (68% of 2015 valuation), the village has a strong commercial presence (21% of its valuation) which is expected to grow modestly in the next five years.

While many village residents commute to Milwaukee, Sussex also has notable employment opportunities, such as the headquarters of printing company Quad/Graphics Inc. (Ba3 negative; 4.2% of 2015 valuation; 2,100 employees), and Quad/Graphics's research and development arm, Quad Tech (360 employees). The village reports continued development with the recently completed mixed use development of 150 residential rental units with commercial space within the village's Tax Increment District (TID) No. 6. Additional ongoing developments include two single family residential subdivisions, a condominium and Meijer's grocery store.

The village's population increased significantly over the past two decades, from 5,039 in 1990 to 10,518 in the 2010 Census. At 3.1% in October 2015, Waukesha County's unemployment rate is below the state's rate of 3.6% and national rate of 4.8% for the same time period. Resident wealth indices have remained above average and stable with median family income at 131% of national levels, based on estimated figures from the 2012 American Community Survey.

### Financial Operations and Reserves: Solid Financial Operations With Improved Liquidity and Reserves

The village's solid financial operations are expected to remain stable given healthy reserves and management's conservative financial practices. The village has experienced consecutive operating surpluses over the last five fiscal years, including the fiscal 2014 surplus of \$623,000. As a result, the village's General Fund balance increased to \$4.0 million or a healthy 58% of General Fund reserves. Officials attributed the increase to operational savings achieved in public safety and general government as well as higher than budgeted fines/

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forfeiture revenues. The village's operating funds, which includes the General Fund and Debt Service Funds, also improved in fiscal 2014 from the prior year to \$4.3 million or a healthy 62% of operating revenues. The village's formal fund balance policy calls for maintaining at least three months of expenditures in operating reserves, a level which it currently exceeds.

After the closure of TID No. 5 in 2010, the village established a depreciation fund within the General Fund financed with excess TID revenues and an ongoing diversion of revenues to that fund. The depreciation fund is dedicated to a variety of annual capital improvement needs. At the close of fiscal 2014, officials noted an increase in the General Fund assigned balance to approximately \$2.2 million, of which \$2 million is dedicated for capital expenditures. For fiscal 2015, the village budgeted for balanced operations in the General Fund but year to date unaudited figures indicate a modest operating surplus. Officials plan to spend the surplus to consolidate municipal offices into one civic campus. For fiscal 2016, the village budgeted to utilize a modest \$20,000 of reserves for one-time expenses, but expect some positive variances.

#### LIQUIDITY

The village's net cash position has improved over the past five fiscal years. The village's fiscal 2014 operating funds (which consist of the General Fund and Debt Service Funds) net cash totaled \$8.1 million or 90% of operating revenues, which represented an increase from the prior year's position of \$7.6 million or a strong 65% of revenues. Officials attributed the increase to operating surpluses over the past couple of years and noted no other plans other than the use of Depreciation Fund reserves for the village's civic campus.

#### Debt and Pensions: Manageable Debt Burden

The village's debt profile will remain manageable due to limited future borrowing plans and below average principal amortization. The village's direct and overall debt burden are average at 2.5% and 3.0% of full valuation, respectively. Debt service is elevated, comprising 28% of 2014 operating expenditures. Fiscal 2014, total fixed costs, which includes debt service and annual pension contributions, totaled \$2.6 million or approximately 30% of 2014 operating expenditures. The village plans to issue \$8 million in general obligation debt during 2016 to finance various general village projects and projects within the village's tax increment district.

#### DEBT STRUCTURE

The village's debt portfolio is comprised of fixed rate GO bonds and BANs. Amortization of existing long-term debt is slow, with 70.6% of principal set to be retired in ten years. The village has \$3.3 million of outstanding BANs, or 12% of total debt outstanding, posing a measure of market access risk. The village plans to take the BANs out with long-term general obligation debt well in advance of maturity, allowing time for contingency plans if needed.

#### DEBT-RELATED DERIVATIVES

The village is not a party to any interest rate swap or derivative agreements.

#### PENSIONS AND OPEB

Sussex has an affordable pension burden, based on liabilities associated with its participation in the Wisconsin Retirement System (WRS), a state-wide cost-sharing plan. WRS pension liabilities are fully funded on a reported basis. The village's annual contribution to WRS in fiscal 2014 was \$132,000 equal to 1.0% of 2014 operating revenues.

Moody's adjusted net pension liability (ANPL) for the village as of fiscal 2013, under our methodology for adjusting reported pension data, is \$1 million. The village's three-year average ANPL is equal to a modest 0.16 times operating revenues and 0.16% of full value. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the village's reported liability information, but to improve comparability with other rated entities. We determined the village's share of liability in proportion to its contributions to the plan for analytic purposes.

#### Management and Governance: Wisconsin Villages Operate With A Moderate Amount Of Budgetary Flexibility; Sussex Benefits From Strong, Prudent Management

Wisconsin villages have an institutional framework score of "A", or moderate. Villages operate under strict levy limits. Unlike counties, villages cannot implement a sales tax to supplement property tax revenue. Wisconsin's Act 10 legislation, which was enacted in 2011, provides villages with considerable expenditure flexibility as it curbs the bargaining power of non-public safety government employees. Pensions are well-funded.

The village's management team is strong, adhering to long-term capital plans and maintenance of reserves. The village utilizes a conservative budgetary approach and multi-year capital plan.

### Legal Security

The Series 2016A General Obligation Promissory Notes are secured by the village's GO unlimited property tax pledge on all taxable property within the village without limitation as to rate or amount. The security does not benefit from a lock box structure nor a statutory lien.

### Use of Proceeds

Proceeds of the Series 2016A Notes will finance the costs of construction and equipping of a new Municipal Center.

### Obligor Profile

The Village of Sussex is located in southeastern Wisconsin (Aa2 Positive), approximately 19 miles northwest of Milwaukee and nine miles north of the City of Waukesha. The village comprises 7.67 square miles with an estimated population of 10,700.

### Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

### Ratings

Exhibit 3

#### SUSSEX (VILLAGE OF) WI

Issue	Rating
General Obligation Promissory Notes, Series 2016A	Aa3
Rating Type	Underlying LT
Sale Amount	\$1,625,000
Expected Sale Date	01/12/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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