

RatingsDirect®

Summary:

Beloit, Wisconsin; General Obligation

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Summary:

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Credit Profile

US\$2.485 mil GO corp purp bnds ser 2015C dtd 03/19/2015 due 03/01/2035

Long Term Rating A+/Stable New

US\$0.76 mil GO prom nts ser 2015B dtd 03/19/2015 due 03/01/2025

Long Term Rating A+/Stable New

Beloit GO

Unenhanced Rating A+(SPUR)/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A+' long-term rating to Beloit, Wis.' series 2015B general obligation (GO) promissory notes and series 2015C GO corporate purpose bonds. At the same time, we affirmed our 'A+' long-term rating and underlying rating (SPUR) on the city's GO debt. The outlook is stable.

The city will use series 2015B note proceeds to finance the purchase of various department equipment, including vehicle replacement. The series 2015C bond proceeds will be used for infrastructure improvements, including sidewalk improvements, bike path extension projects, and various park and recreation facility enhancements. A pledge of the city's full faith credit and resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure these bonds.

The ratings reflect our assessment of the following factors for the city, including its:

- Very strong budgetary flexibility, with fiscal 2013 audited reserves at 29% of general fund expenditures;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures; and
- Strong management demonstrated by good financial policies.

In our view, the following weaknesses partly offset the above strengths:

- Weak economy, with below-average incomes and unemployment above state averages;
- Weak budgetary performance, as characterized by projected general fund deficits; and
- Very weak debt and contingent liabilities position.

Very strong budgetary flexibility

In our opinion, Beloit's budgetary flexibility remains very strong, with reserves at \$8.9 million, or 29% of expenditures, in audited fiscal 2013. After an expected slight decline in the general fund in fiscal 2014, the city expects reserves to equal approximately 27.6% of expenditures. For fiscal 2015, the city is expecting to draw down \$300,000 from the general fund. Despite this, we expect the city's budgetary flexibility to remain very strong.

Very strong liquidity

Supporting the city's finances is liquidity we consider very strong, with total government available cash at 63% of total governmental fund expenditures and 2.6x debt service. We believe the city has exceptional access to external liquidity, having issued bonds, including GO and revenue bonds, frequently during the past 15 years. The city currently does not face any notable contingent liabilities, and in our view, its debt structures pose minimal liquidity risks.

Strong management conditions

We view the city's management conditions as strong, with good financial practices. Management provides the board with quarterly reports on budget-to-actual results and investments, and regularly updates a long-term capital improvement plan. Its debt policy is more restrictive than state guidelines, and its formal fund balance policy stipulates that the city maintain a minimum general fund balance at the greater of three months expenditures or 15%.

Weak economy

We consider Beloit's economy to be weak. Beloit is in south-central Wisconsin, along the Illinois border in Rock County, and has an estimated population of 36,820. The local economy centers on manufacturing and food processing, and residents have additional jobs in the Rockford, Ill., and Janesville areas, both approximately 15 miles away. Unemployment in Rock County was 7.9% in 2013. Beloit has a projected per capita effective buying income of 65.4% of the U.S. Per capita market value for the city was \$39,970 in 2013. Equalized value (EV) increased 6.8% in 2014 to \$1.47 billion, following an 8% decline in 2013. Management successfully appealed the state's 2014 valuation because the sales statistics used to calculate values were not reflective of overall city trends, and as a result, the city received an additional 8% toward its 2015 valuation. We now consider the city to be part of a broad and diversified metropolitan statistical area, which has improved the city's economy score to weak from very weak.

Weak budgetary performance

The city's budgetary performance has been weak overall. In fiscal 2013 (year ended June 30), management reported a 3.4% deficit for the general fund and a 5.8% total governmental funds deficits (after adjustments). Management attributes the deficit in the general fund in fiscal 2013 to a negative market adjustment due to a valuation of its investment portfolio. For fiscal 2014, the city reported another 1.6% deficit due in part to higher-than-expected winter-weather-related expenses. Because general fund reserves have exceeded the city's policy of maintaining balances of at least three months' expenditures, city policy allows management to draw on up to 2% of general fund reserves each year. Given management's general fund projections and past total governmental fund performance, we expect that the city will likely maintain slight deficits across total governmental funds.

Very weak debt and contingent liability profile

In our opinion, Beloit's debt and contingent liability profile is very weak, with total governmental fund debt service at 24.4% of total governmental fund expenditures and net direct debt at 140% of total governmental fund revenue. Amortization, however, is rapid, with 74.6% of direct debt scheduled to retire within 10 years. Beloit's long-term capital plan calls for additional debt, but projections show that the city's debt burden will decline despite the new debt because a greater amount of older debt will mature.

Eligible employees participate in the Wisconsin Retirement System (WRS) pension plan and receive other postemployment benefit (OPEB) health insurance. Beloit funded its full annual required pension contribution in 2013 and plans to continue to do so. Total city contributions to WRS were \$3.5 million, or 6.4% of expenditures, but

employees paid a portion of this contribution. As of a January 2012 actuarial study, its unfunded actuarial accrued OPEB liability was \$136 million. The city's annual required contribution was \$8.5 million in fiscal 2012, and Beloit contributed \$2.5 million and plans to finance its OPEB liability on a pay-as-you-go basis.

Strong institutional framework

We consider the Institutional Framework score for Wisconsin cities with a population greater than 25,000 as strong.

Outlook

The stable outlook reflects our view that Beloit will maintain its very strong budgetary flexibility and liquidity, supported by strong management. Should budgetary performance materially improve within the two-year outlook horizon, a higher rating is possible. However, should the city experience weakened budgetary performance or a deterioration in budgetary flexibility, we could lower the ratings.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

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

Ratings Detail (As Of February 25, 2015)

Beloit GO		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Beloit GO prom nts ser 2014A dtd 05/15/2014 due 05/01/2024		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Beloit GO (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Beloit GO		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Beloit GO (CIFG)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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