STANDARD & POOR'S
RATINGS SERVICES

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Summary:
Beloit, Wisconsin; General Obligation

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Table Of Contents

Summary:

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Credit Profile		
US$7.86 mil GO corp purp bnds ser 2013D dtd 06/13/2013 due 04/01/2033		
Long Term Rating	A+/Stable	New
Beloit GO		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'A+' long-term rating to Beloit, Wis.'s general obligation (GO) corporate purpose bonds, series 2013D. At the same time, we affirmed our 'A+' long-term rating and underlying rating (SPUR) on the city's previously issued debt. The outlook is stable.

The ratings reflect our view of the city's:

- Steady development and diversification of its tax and employment base,
- Very strong general fund reserves, and
- Good financial management.

In our view, the city's moderately high debt burden, persistently above-average unemployment, and below-average incomes and market values, in part, offset the above credit strengths.

The city's unlimited-tax full faith and credit GO pledge secures the bonds. Management plans to use the series 2013D bond proceeds to finance various street and parks improvements. Also, bond proceeds will refinance the city's series 2010 taxable GO corporate purpose bonds (recovery zone economic development bonds) and state trust fund loans (Build America Bonds) issued in 2009 and 2010 for interest savings, currently callable because of the federal sequestration subsidy reduction.

Beloit is in south central Wisconsin, along the Illinois-Wisconsin border in Rock County and has an estimated population of 36,850. The local economy centers on manufacturing and food processing, and residents have additional employment opportunities in the Rockford and Janesville areas, both approximately 15 miles from Beloit. The recent closure of the General Motors Corp. plant in Janesville and temporary employment reductions in Belvidere, Ill.'s Chrysler plant (2,500 employees) have contributed to consistently above-average unemployment. However, expansions at Kerry Ingredients and other local food processing plants, medical technology companies, and other businesses have recently added jobs to the community. Beloit's unemployment averaged 11.1% in 2012, above the state's 6.9%. The city's annual unemployment rate has decreased each year from a peak of 17.8%, in 2009. We consider city median household and per capita incomes adequate at 77% and 69% of national averages, respectively.

Despite some decreases in taxable values given the economic downturn, Beloit's tax base has remained consistently strong. City assessed value (AV) increased 2.1% to $1.59 billion in 2012. We consider the city's tax base diverse, with the leading 10 taxpayers accounting for 21.1% of equalized value (excluding tax increment) in 2012; no single taxpayer accounts for more than 5%. Equalized market value (tax-increment districts included), in our view, is adequate at $40,922 per capita. Management expects that equalized value will grow at a slow pace beginning in 2014 due to continued commercial growth and stabilization of the residential market.

Management has reported that despite budgeted drawdowns, it expects to maintain consistently strong reserves over the next two fiscal years. The state's biannual fiscal 2012-2013 budget reduced state-shared revenue and transportation aid and limits municipal operating property tax levy increases to net new construction. For fiscal years 2012 and 2013 (Dec. 31), the state cut Beloit's shared general fund revenues by approximately $520,000 each year. The city expects that increases in user fees, attritional savings, changes to salaries, and benefits department budget cuts will help offset state aid cuts, more restrictive levy limitations, and rising costs, but still has budgeted for some use of general fund reserves. Its 2013 budget includes a $590,000 use of general fund balance. The city maintains a fund balance policy to maintain at least three months of expenditures as reserves, and if over this policy, it may use up to 2% of the general fund reserves to balance the budget. Should the state choose to continue current levy limits over the next biennium, managements has reported its commitment to make budget cuts sufficient to maintain its fund balance policy. It may budget for a use of around $600,000 in both fiscal 2014 and fiscal 2015. We anticipate that should the city draw down reserves at the 2% level during the next three fiscal years, general fund reserves would remain, in our view, very strong.

Despite state budget cuts and recessionary impacts, Beloit has maintained very strong reserves. Its fiscal 2012 audit is not complete, but management anticipates a $200,000 surplus because of less-than-budgeted expenditures, resulting partly from a mild winter. While the city had budgeted for a $600,000 deficit in fiscal 2011, it drew upon just $24,917 of reserves due to various savings measures. Total general fund equity was $10.78 million to end fiscal 2011, of which $8.41 million was unassigned, which we consider a very strong 28.63% of expenditures.

Standard & Poor's considers the city's financial management policies "good" under its Financial Management Assessment methodology, indicating policies exist in most key areas, although all of the policies may not be formalized or monitored regularly.

We consider Beloit's overall net debt burden, including overlapping debt and appropriation debt, moderately high at 7.1% of market value and moderate at $2,922 per capita. Amortization is above average, with 71% of direct debt to be retired within 10 years. Debt service carrying charges were elevated at 19.7% of governmental expenditures less capital outlay in fiscal 2011. The city's capital plan calls for $3 million to $5 million in average annual GO debt issuance through 2018. Management's long-term debt strategy includes a policy to maintain the city's direct debt burden at or below 3.5% of AV.

All eligible city employees participate in the Wisconsin Retirement System, a cost-sharing multiple-employer defined-benefit public employee retiree system. Beloit has historically paid its full annual required contribution to the state fund. In fiscal 2011, the city paid $3.49 million toward pensions, or approximately 6.09% of total governmental expenditures. The city also subsidizes health insurance for retirees. As of Jan. 1, 2010, its unfunded actuarially accrued liability for these other postemployment benefits was $100.22 million. The city is financing this liability on a pay-as-you-go basis. The city contributed $2.19 million, or 31.2% of its actuarially annual required contribution in fiscal 2011, which amounted to 3.82% of governmental expenditures.

Outlook

The stable outlook reflects our expectation that Beloit will maintain consistently strong reserves over the two-year horizon of the stable outlook. We expect that the city will be able to mitigate state funding cuts with identified savings measures to the extent that possible general fund drawdowns do not significantly affect the strength of city reserves. In our view, the city's strong financial reserves would provide credit stability should any additional local employment or other economic challenges surface.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of May 17, 2013)		
Beloit GO		
Long Term Rating	A+/Stable	Affirmed
Beloit GO		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Beloit GO (CIFG)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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