

RatingsDirect®

Summary:

Beloit, Wisconsin; General Obligation

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Credit Profile

US\$8.41 mil GO corp purp bnds ser 2014B dtd 05/15/2014 due 05/01/2034		
<i>Long Term Rating</i>	A+/Stable	New
US\$1.135 mil GO prom nts ser 2014A dtd 05/15/2014 due 05/01/2024		
<i>Long Term Rating</i>	A+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'A+' long-term rating to Beloit, Wis.' series 2014A general obligation (GO) promissory notes and series 2014B GO corporate purpose bonds. At the same time, we affirmed our 'A+' ratings on the city's GO debt, based on our local GO criteria released Sept. 12, 2013. The outlook is stable.

The city will use series 2014A note proceeds to finance various public purposes, including general public works projects, repair and renovation of public facilities, and the acquisition of equipment. It will use the series 2014B bond proceeds to finance various street improvements and parks and public grounds projects, provide financial assistance to community development projects, and refund certain obligations. 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 rating reflects our assessment of the following factors for the city, including its:

- Very strong budgetary flexibility with 2012 audited reserves at 33.6% 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; and
- Adequate budgetary performance with general fund deficits but more stable governmental fund results.

The following weaknesses, in part, offset the above strengths:

- Very weak economy, with below-average incomes, recent market value declines, and unemployment above state averages;
- Weak budget performance, as characterized by projected general fund deficits; and
- Very weak debt and contingent liabilities position, albeit somewhat offset by rapid amortization.

Very strong budget flexibility

In our opinion, Beloit's budgetary flexibility remains very strong, with reserves above 30% of expenditures for the past three years, although there are plans to use the fund balance in fiscal years 2013 and 2014. The city expects to report a \$335,000 use of general fund reserves for fiscal 2013. It has budgeted for a 2% general fund deficit in fiscal 2014, or about \$600,000, but expects to outperform budget with results more in line with those of 2013. For audited fiscal 2012, available general funds totaled \$9.7 million, or 33.6% of expenditures.

Very strong liquidity

Supporting the city's finances is liquidity we consider very strong, with total government available cash at 66% of total governmental fund expenditures and 3.8x debt service. We believe the city has exceptional access to external liquidity, having issued bonds frequently during the past 15 years, including GO and revenue bonds. 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%.

Very weak economy

We consider Beloit's economy very 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. Closures at various auto and auto part-related businesses over the past decade have contributed to above-average unemployment. However, expansions at Kerry Ingredients and other local food-processing plants, medical technology companies, and other businesses have recently added jobs. While the unemployment rate in Rock County averaged 8.4% in 2012, city unemployment averaged 11.1%. Beloit has a projected per capita effective buying income of 69.8% of the U.S. Per capita market value for the city was \$37,402 in 2013. Equalized value (EV) decreased 8.7% in 2013 to \$1.4 billion, following a 3.3% decline in 2012. The state uses a sales ratio to calculate EV, and management is currently appealing the state's recent valuation because it believes the sales statistics used to calculate values were not reflective of overall city trends. Management has reported modest new construction for 2013 and 2014.

Weak budgetary performance

The city's budgetary performance has been weak overall. In the last three audited years, the general fund had balanced results to slight surpluses, but management reported a 1.1% deficit for fiscal 2013. While it budgeted for a 2% deficit for fiscal 2014, management actually expects to report a deficit closer to 1.3% to close the year. Because general fund reserves have been in excess of its policy to maintain balances of at least three months' expenditures, city policy allows it to draw on up to 2% of general fund reserves each year. Total governmental fund results, even after accounting for large one-time expenditures and bond proceeds, showed a slight deficit of 1% for 2012. 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 17.6% of total governmental fund expenditures and net direct debt at 137.4% of total governmental fund revenue. The recent decline in market value has contributed to rising debt statistics, as the city's overall net debt burden, including overlapping debt, has risen to 11.4%. Amortization, however, is rapid, with 71.2% 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 2012 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 \$131 million. The city's annual required contribution was \$8.2 million in fiscal 2012, and Beloit contributed \$2.4 million and plans to finance its OPEB liability on a pay-as-you-go basis. The state of Wisconsin allows cities to reduce OPEB benefits, and the city is currently considering options to reduce its liability.

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. Because the city's policy calls to use no more than 2% of general fund reserves each year, we do not expect that city financial performance or reserves will materially weaken over the two-year horizon. However, a significant drawdown could pressure the rating. Growth in city incomes and improvement in debt indicators could strengthen the rating, but we do not expect the magnitude of such growth or reduction in debt would be sufficient to lead to an upgrade within the outlook period.

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 April 18, 2014)		
Beloit GO		
<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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