

## CREDIT OPINION

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## Butler (Village of), WI

### Update to credit analysis

#### Summary

Butler, WI's (A1) credit profile is supported by improved financial performance and healthy, though nominally small, reserves. The tax base is modestly-sized and fully built out, which will limit significant growth, but it will continue to benefit from its close proximity to [Milwaukee](#) (A1 stable). The village's main credit challenges are high fixed costs resulting from an elevated debt burden and small scale of operations.

#### Credit strengths

- » Recent increases in operating reserves
- » Modest pension burden
- » Favorably located within the Milwaukee metropolitan area

#### Credit challenges

- » High fixed costs
- » Small tax base compared to similarly rated credits
- » Nominally small operating reserves

#### Rating outlook

Outlooks are generally not assigned to local government credits with this amount of debt.

#### Factors that could lead to an upgrade

- » Significant expansion of the tax base
- » Material growth in operating reserves and liquidity
- » Moderation of fixed costs

#### Factors that could lead to a downgrade

- » Deterioration of the tax base or weakening of the demographic profile
- » Narrowing of operating reserves
- » Increases to the village's debt or pension burdens

## Key indicators

Exhibit 1

Butler (Village of) WI	2012	2013	2014	2015	2016
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$234,173	\$234,060	\$244,135	\$247,978	\$252,296
Population	1,816	1,783	1,746	1,763	1,816
Full Value Per Capita	\$128,950	\$131,273	\$139,825	\$140,657	\$138,929
Median Family Income (% of USMedian)	99.1%	81.1%	102.2%	107.4%	105.2%
<b>Finances</b>					
Operating Revenue (\$000)	\$2,634	\$2,629	\$2,637	\$2,837	\$2,901
Fund Balance (\$000)	\$305	\$830	\$506	\$525	\$623
Cash Balance (\$000)	\$1,278	\$1,530	\$1,355	\$1,349	\$1,385
Fund Balance as a % of Revenues	11.6%	31.6%	19.2%	18.5%	21.5%
Cash Balance as a % of Revenues	48.5%	58.2%	51.4%	47.6%	47.8%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$4,275	\$5,107	\$3,677	\$3,585	\$3,848
3-Year Average of Moody's ANPL (\$000)	\$621	\$759	\$1,136	\$1,605	\$2,313
Net Direct Debt / Operating Revenues (x)	1.6x	1.9x	1.4x	1.3x	1.3x
Net Direct Debt / Full Value (%)	1.8%	2.2%	1.5%	1.4%	1.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.2x	0.3x	0.4x	0.6x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.3%	0.3%	0.5%	0.6%	0.9%

Source: Moody's Investors Service, the village's audited financial statements, US Census Bureau

## Profile

The village of Butler encompasses 0.8 square miles in [Waukesha County](#) (Aaa stable), approximately 10 miles northwest of downtown Milwaukee. It provides a full range of municipal services to roughly 1,800 residents.

## Detailed credit considerations

### Economy and tax base: small tax base northwest of Milwaukee

Butler's tax base and economic profile will remain limited over the long term given minimal opportunities for new development, but its location in the greater Milwaukee area will support long-term stability. The \$253.5 million tax base grew at an average annual rate of 1.6% between 2012 and 2017, but remains below its pre-recession peak of \$262.4 million. Given its small area, growth is due almost exclusively to appreciating real estate values and redevelopment as the village is fully built out. The tax base is a mixture of commercial (42.2% of equalized value), residential (37.6%) and manufacturing and other (20.1%), and is moderately concentrated with the top ten taxpayers accounting for 16.1% of equalized value. The local economy has traditionally been anchored by manufacturing, though residents also benefit from the village's close commuting distance to Milwaukee. Resident income levels are slightly above average, with median family income at 105.2% of the US.

### Financial operations and reserve: healthy, but nominally small, operating reserves

The village's financial profile is expected to remain satisfactory given the recent stabilization of operations, though reserves will remain small on a nominal basis. Following a trend of deficits which resulted in a general fund low in fiscal 2014, reserves grew over the past two years to an available fiscal 2016 general fund balance of \$563,000, or 25.5% of revenue. The available operating fund (general and debt service funds) balance improved to \$623,000 at the close of fiscal 2016, equivalent to 21.5% of revenues. Unaudited figures for fiscal 2017 reflect a further general fund surplus of \$107,000 resulting from police retirements and decreased health care costs. The fiscal 2018 budget is balanced.

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**LIQUIDITY**

The village closed fiscal 2016 with a net cash position of \$1.4 million, or a healthy 47.8% of revenue.

**Debt and pension: high fixed costs; modest pension burden**

Fixed costs will likely remain high due to the village's moderate debt burden and slow principal amortization. Inclusive of an upcoming issue, net direct debt is above average at 1.9% of full value and 1.7x operating revenue. Management reports no plans for additional debt in 2018, but anticipates borrowing \$1 million for capital projects in 2019. Fixed costs, inclusive of debt service and pension contributions, were a high 27.2% of operating revenue in fiscal 2016.

**DEBT STRUCTURE**

All of the village's debt is fixed rate. Principal amortization is below average with 55.7% of debt retired within ten years.

**DEBT-RELATED DERIVATIVES**

The village has no exposure to any debt-related derivatives.

**PENSIONS AND OPEB**

Village employees participate in the Wisconsin Retirement System (WRS), a statewide cost-sharing defined benefit pension plan. Moody's single-year adjusted net pension liability (ANPL) for Butler, under our methodology for adjusting reported pension data, was \$2.5 million in fiscal 2016, a 30% increase from the fiscal 2014 ANPL of \$1.9 million. The increase reflects various factors, including plan asset underperformance relative to plan assumptions and the decline in the discount rate used to calculate the ANPL. Despite the single-year increase in ANPL, the village's three-year average ANPL was modest at 0.9% of full value and just 0.8x fiscal 2016 operating revenue. Village contribution to WRS in fiscal 2016 totaled \$75,000, or a modest 2.6% of operating revenue.

The ANPL referenced above reflects the allocation of WRS liabilities to participating employers, which is a required reporting standard under GASB effective fiscal 2015. The ANPL is not intended to replace Butler's reported liability information but is used to enhance comparability with other rated entities.

**Management and governance: moderate institutional framework**

Careful budgeting and disciplined expense management have contributed to the stabilization of operations in recent years, resulting in strengthened reserves. Butler has a formal policy to maintain fund balance at no less than 10% of budgeted operating expenses, a level it currently exceeds.

Wisconsin cities, including villages, have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue source, property tax revenue, is subject to a cap that restricts cities from increasing their operating property tax levies except to capture amounts represented by net new construction growth. Revenues and expenditures tend to be predictable. Across the sector, fixed and mandated costs are generally high. Expenditures are somewhat flexible, as collective bargaining is allowed for public safety employees but is curbed for non-public safety employees.

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