

CREDIT OPINION

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Send Your Feedback

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City of Watertown, WI

Update to credit analysis

Summary

The [City of Watertown, WI](#) (Aa3) benefits from a strong financial position bolstered by a growing revenue trend, strong finances and a solid local economy that is growing rapidly. While solid, resident income and full value per capita lag the medians for similarly rated peers. Long-term liabilities and fixed costs will remain moderate following an upcoming sale.

Credit strengths

- » Consistently healthy reserves

Credit challenges

- » Local economy growing slower than the nation
- » Levy constrained by state-imposed limits on growths

Rating outlook

We do not assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Improvement in resident income and full value per capita to levels on par with higher rated peers
- » Fund balance ratio that consistently exceeds 55%
- » Leverage ratio consistently below 250%.

Factors that could lead to a downgrade

- » Decline in fund balance or liquidity near 25% of revenue
- » Increase in leverage approaching 350% of revenue

Key indicators

Exhibit 1

Watertown (City of) WI

	2020	2021	2022	2023	Aa Medians
Economy					
Resident income ratio (%)	91.7%	96.2%	101.2%	97.8%	114.1%
Full Value (\$000)	\$1,647,722	\$1,671,096	\$1,958,383	\$2,270,365	\$2,888,367
Population	23,561	23,030	22,978	22,873	22,430
Full value per capita (\$)	\$69,934	\$72,562	\$85,229	\$99,260	\$125,640
Annual Growth in Real GDP	-4.1%	7.3%	2.5%	-1.2%	2.0%
Financial Performance					
Revenue (\$000)	\$41,437	\$41,659	\$45,328	\$46,782	\$52,335
Available fund balance (\$000)	\$20,144	\$22,174	\$25,036	\$28,136	\$29,526
Net unrestricted cash (\$000)	\$32,773	\$34,045	\$34,263	\$37,827	\$41,432
Available fund balance ratio (%)	48.6%	53.2%	55.2%	60.1%	57.1%
Liquidity ratio (%)	79.1%	81.7%	75.6%	80.9%	79.6%
Leverage					
Debt (\$000)	\$54,124	\$49,322	\$43,581	\$41,730	\$37,305
Adjusted net pension liabilities (\$000)	\$41,433	\$52,589	\$50,514	\$25,721	\$45,496
Adjusted net OPEB liabilities (\$000)	\$0	\$0	\$0	\$0	\$4,376
Other long-term liabilities (\$000)	\$1,335	\$1,362	\$1,196	\$1,253	\$1,726
Long-term liabilities ratio (%)	233.8%	247.9%	210.2%	146.9%	210.2%
Fixed costs					
Implied debt service (\$000)	\$3,969	\$3,876	\$3,459	\$3,044	\$2,477
Pension tread water contribution (\$000)	\$606	\$436	\$494	N/A	\$1,199
OPEB contributions (\$000)	\$0	\$0	\$0	\$0	\$179
Implied cost of other long-term liabilities (\$000)	\$88	\$96	\$96	\$84	\$115
Fixed-costs ratio (%)	11.3%	10.6%	8.9%	7.7%	9.6%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the Jefferson County, Wisconsin Metropolitan Statistical Area.

Sources: US Census Bureau, Watertown (City of) WI's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

The City of Watertown is located primarily in Jefferson County along the Rock River in southeastern Wisconsin, approximately 40 miles northwest of Milwaukee.

Detailed credit considerations

Watertown's credit profile will remain stable, supported by ongoing development and a strong financial position. A steady trend of both residential and commercial construction, in addition to residential appreciation, has nearly doubled the city's tax base over the last decade. Ongoing construction will continue to benefit the city because Watertown, like all Wisconsin municipalities, is limited by statute from raising the property tax levy by the greater of zero or the percentage change in equalized value from net new construction. Resident income levels (97.8% of the US) and full value per capita (\$104,000) are solid but lag the median for similarly rated peers. Fiscal 2023 closed with a strong \$28 million in available fund balance, representing 60% of total annual revenue. The general fund held about 27% of the city's reserves and much of the remainder is net unrestricted current assets in the city's utility funds. Resources in the utility funds could be made available for governmental operations if necessary.

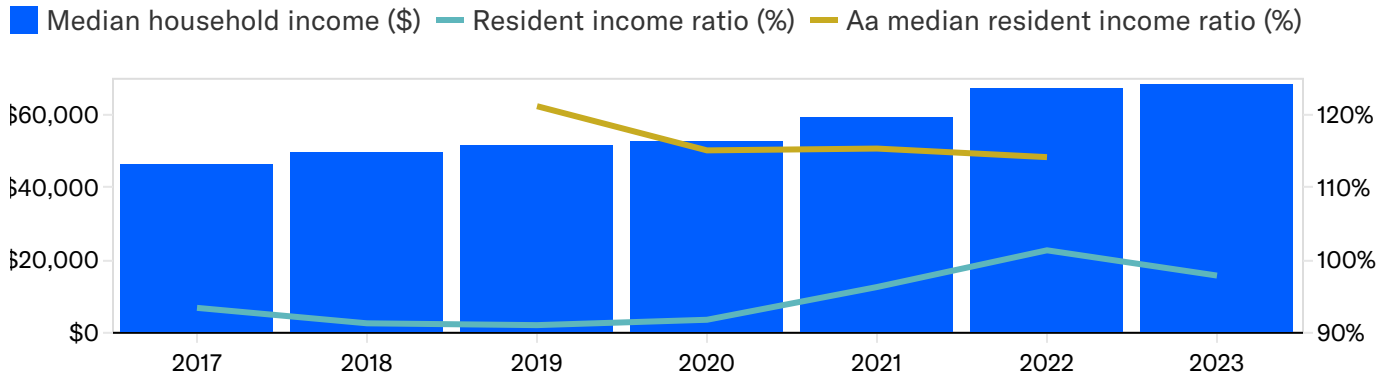
Unaudited results for fiscal 2024 indicate a small general fund surplus and modest changes in reserves across other funds, which would leave available fund balance above 55% of total annual revenue. The fiscal 2025 budget projects a general fund deficit of \$993,845, attributed to a planned spend down for miscellaneous capital projects. The city is in the process of issuing around \$18.6 million for various capital projects. Following the sale, the long-term liability ratio is expected to approach 160% of revenue. Leverage is likely to stay near current levels, as the city plans to issue debt annually for ongoing capital projects.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Economy

Exhibit 2

Resident Income

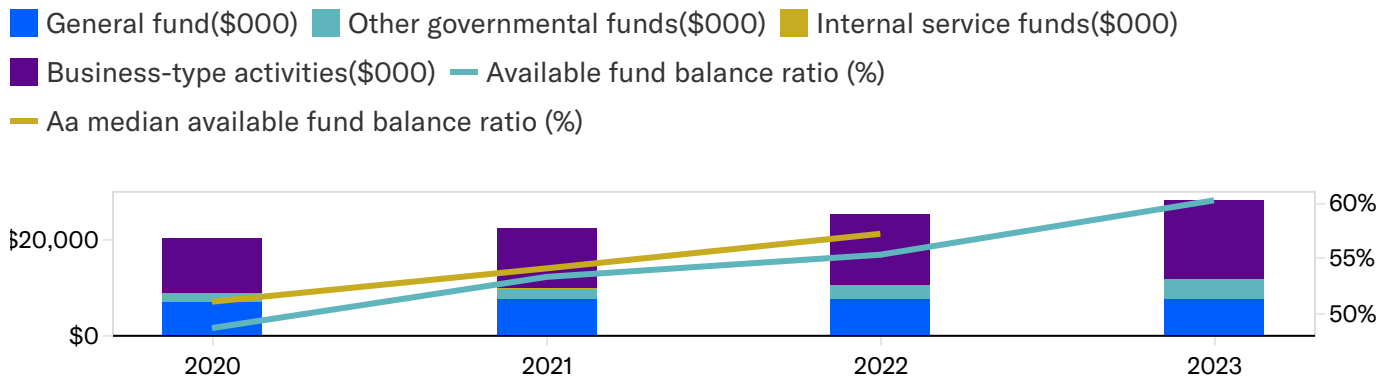


Source: Moody's Ratings

Financial operations

Exhibit 3

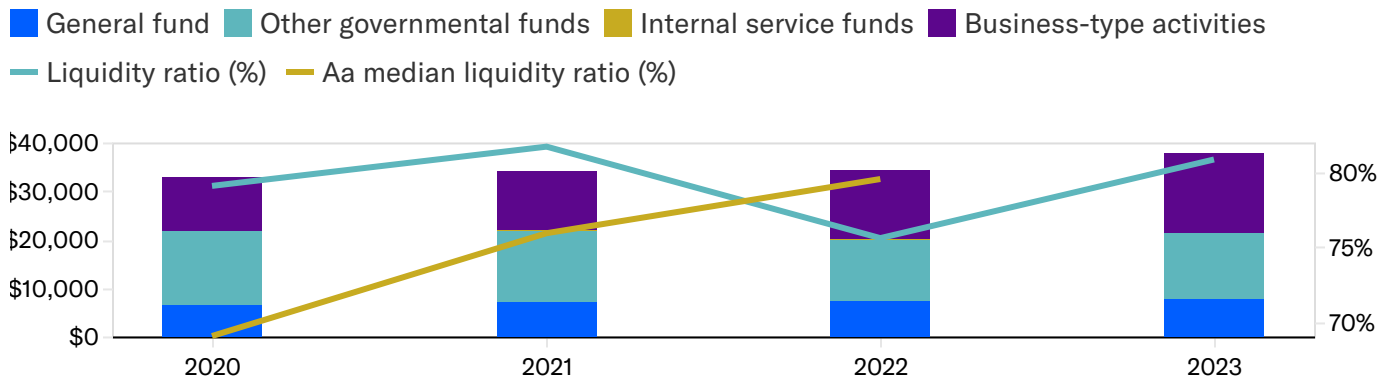
Fund Balance



Source: Moody's Ratings

Liquidity

Exhibit 4

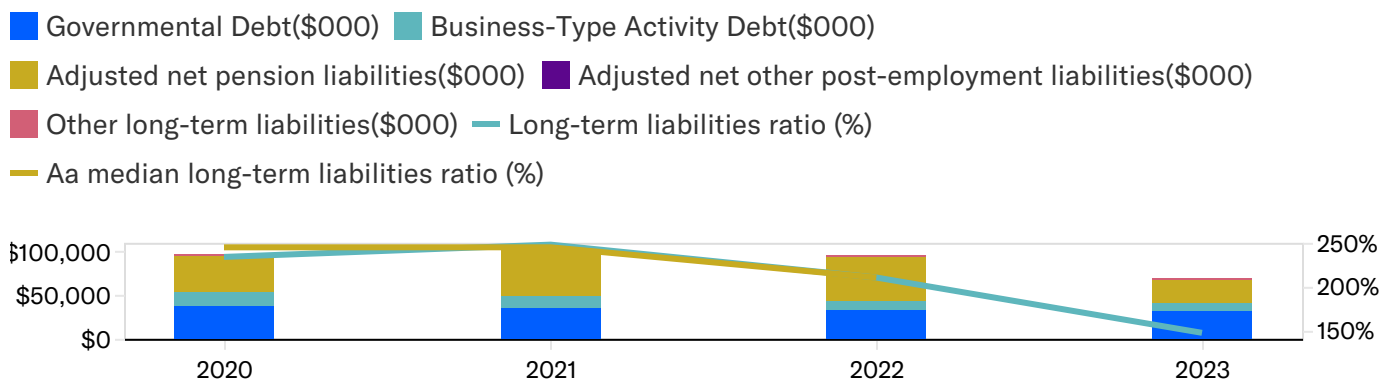
Cash

Source: Moody's Ratings

Leverage**Pensions and OPEB**

While some provide employees with supplemental pension or retiree health care (OPEB) benefits, Wisconsin cities' liabilities for employee retirement benefits predominantly stem from their participation in the Wisconsin Retirement System (WRS). Pension risks for local governments that participate in WRS have generally remained low over time, in part due to a mechanism by which the retirement system shares some investment risk with retirees. Contributions by governments in aggregate to the WRS have also consistently tracked near or above our tread water indicator, helping to constrain liability growth.

Exhibit 5

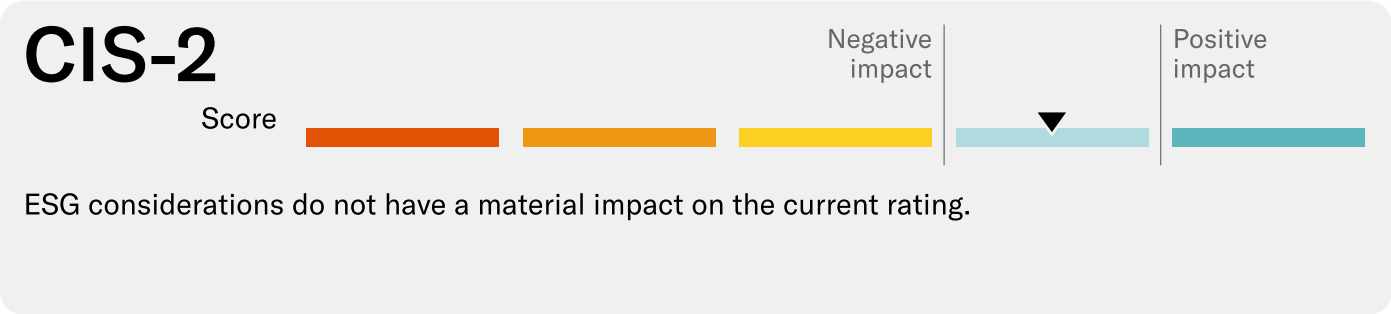
Total Primary Government - Long Term Liabilities

Source: Moody's Ratings

ESG considerations

Watertown (City of) WI's ESG credit impact score is CIS-2

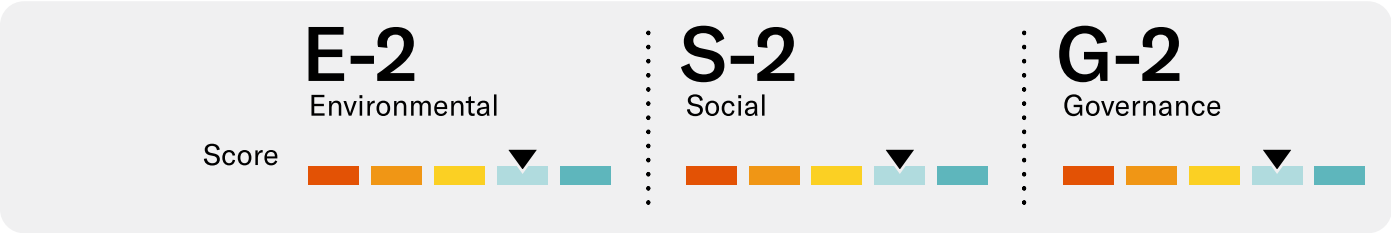
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Watertown, WI's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting low exposure to environmental and social risks along with good governance.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Watertown's E Issuer Profile Score is neutral to low (**E-2**), reflecting relatively low exposure to environmental risks across categories, including physical climate risk, carbon transition, water management, natural capital and waste and pollution.

Social

The city's S Issuer Profile Score is neutral-to-low (**S-2**), reflecting relatively low exposure to social risks across most categories, including access to basic services, housing affordability, labor and income, demographic trends and health and safety. Education is moderately negative with below average educational attainment relative to peers.

Governance

Watertown's G issuer profile score is neutral to low (**G-2**) reflecting good governance. Institutional structure for all Wisconsin municipalities is in line with peers given the sector's major revenue source, property tax revenue, is subject to a cap that restricts cities from increasing their operating property tax levies and expenditures are somewhat flexible, as collective bargaining is allowed for public safety employees but is curbed for non-public safety employees. Transparency and disclosure practices are in line with peers as audit releases are timely and policy credibility and effectiveness are sound with a formal reserve policy. The city's responsive budget management has led to solid reserves and a history of operating surpluses despite state imposed levy limits.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 8

Watertown (City of) WI

	Measure	Weight	Score
Economy			
Resident income ratio	97.8%	10.0%	A
Full value per capita	104,173	10.0%	Aa
Economic growth metric	-1.3%	10.0%	A
Financial Performance			
Available fund balance ratio	60.1%	20.0%	Aaa
Liquidity ratio	80.9%	10.0%	Aaa
Institutional Framework			
Institutional Framework	A	10.0%	A
Leverage			
Long-term liabilities ratio	146.9%	20.0%	Aa
Fixed-costs ratio	7.7%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa2
Assigned Rating			Aa3

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Jefferson County, Wisconsin Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Watertown (City of) WI's financial statements and Moody's Ratings

Appendix

Exhibit 9

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Ratings
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US Cities and Counties Methodology](#).

Source: Moody's Ratings

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