Research Update:

Whitewater, WI Waterworks And Sewer System Revenue Bond Rating Raised To 'A' On Improved Debt Service Coverage

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Overview

- S&P Global Ratings raised its long-term rating on Whitewater, Wisconsin's waterworks and sewer system revenue bonds to 'A' from 'A-'.
- At the same time, we assigned our 'A' long-term rating to the city's $5.3 million series 2026B waterworks and sewer system revenue bonds.
- The outlook is stable.
- The rating upgrade is driven by improved and stabilized debt service coverage (DSC) levels, as prior significant rate increases have been absorbed. We anticipate DSC will remain stable once the series 2026B debt is layered in.

Rationale

Security

The bonds are secured by a combined pledge of net water and sewer system revenues and are on parity with revenue debt outstanding. We the bond provisions as credit neutral, with a rate covenant of 1.2x of all existing parity bonds, an additional bonds test requirement of 1.2x average annual debt service payment and not less than the 1.2x the maximum annual debt service (MADS), and a debt service reserve funded at a level equal to 10% of proceeds, MADS, or 125% of average annual debt service on additional debt. Officials intend to use the series 2026B bond proceeds to finance additions, improvements, and extensions to the city's waterworks system and sewer system.

Credit highlights

The rating upgrade reflects a sustained improvement in DSC since fiscal 2023, a trend we expect to persist even with the layering of the new series 2026B debt. The DSC decline to approximately 1.0x in fiscal 2023 was a transitory result of increased debt service costs from 2022 issuances coinciding with the lag in implementing significant rate hikes (a 30% water rate increase in 2023 and an 18% sewer rate increase in 2022). To prevent future volatility, management has transitioned to a predictable rate-setting schedule. By replacing large, infrequent adjustments with steady 3%-5% annual inflationary increases, the city expects to maintain more stable and predictable coverage moving forward. As a result, forecasts show coverage that is supportive and comparable to 'A' rated peers.

Additional credit factors include:

- The University of Wisconsin-Whitewater (11,000 students) provides a stabilizing economic influence within a small city population of approximately 15,000. While we recognize the presence of customer concentration via Wisconsin Electric Power Co. and the university, the broader base of 3,740 metered accounts in Walworth County remains predominantly stable and residential.
- Combined water and sewer rates remain affordable relative to local income levels. We view the shift to planned annual rate adjustments of approximately 3%-5% as a positive step toward maintaining long-term revenue stability.
- DSC has improved significantly following prior rate increases. Although we apply a conservative view given uneven historical performance, we expect coverage to remain above 1.6x, supported by the new predictable rate-setting framework and the layering of the 2026B series debt.
- Liquidity is strong, with extremely strong days' cash on hand and unrestricted reserves of approximately $4.1 million. We note that the nominal cash position is a credit weakness and is not commensurate with higher-rated peers. The city will evaluate if it is appropriate to use reserves for capital projects as it completes its capital improvement plan (CIP) revisions.
- The CIP for 2026–2030 has been expanded to $27 million from $11.3 million. While we expect leverage to increase as most of this program is expected to be debt-funded, we believe the impact will be manageable as the balance is supported by grants and leverage is expected to remain comparable at the current rating.
- Operational management assessment is standard, reflecting adequate water supply and treatment capacity, routine annual rate review through the budget process, monthly council oversight, and established long-term financial and capital planning practices.

Environmental, social, and governance

We consider environmental and social risk factors credit neutral in our analysis. Whitewater has continued efforts toward system efficiency, benefitting from water loss between 0% and 10%, a fairly new wastewater facility, and very few delinquent accounts. Governance factors are comparable with those of national peers because the city updates regulations through its long-term capital plan, and performs risk management through backup generators, rate increases, capital planning, and operational practices to ensure financial and operational stability.

Outlook

The stable outlook reflects our view that the combined system will maintain strong levels of all-in DSC, prioritize renewal and replacement of its infrastructure, and maintain very strong liquidity.

Downside scenario

We could lower the rating should the utility's DSC decline due to rising operating expenses or increasing debt service requirements that are not offset by rate increases, resulting in all-in coverage below sufficiency. Furthermore, we could take a negative rating action should liquidity metrics materially deteriorate.

Upside scenario

We view a higher rating as unlikely, as it hinges on significant expansion and diversification of the local economy, improved wealth levels, and a higher nominal cash position.

Whitewater, Wisconsin--economic and financial data

		Fiscal year-end			
	Most recent	2025	2024	2023	Median (A)
Economic data					
MHHEBI of the service area as % of the U.S.	61.0				86.0
Unemployment rate (%)	2.9				4.0
Poverty rate (%)	7.9				13.1
Water rate (6,000 gallons or actual) ($)	20.6				42.4
Sewer rate (6,000 gallons or actual) ($)	50.6				42.0
Annual utility bill as % of MHHEBI	2.1				1.3
Operational management assessment	Standard				Standard
Financial data					
Total operating revenues ($000s)		8,474	8,637	7,051	4,663
Total operating expenses less depreciation ($000s)		3,862	3,726	3,662	3,591
Net revenues available for debt service ($000s)		4,977	5,244	3,598	--
Debt service ($000s)		3,098	3,152	3,006	--
S&P Global Ratings-adjusted all-in DSC (x)		1.4	1.4	1.0	1.6
Unrestricted cash ($000s)		4,140	5,163	6,643	3,895
Days' cash of operating expenses		391	506	662	502
Total on-balance-sheet debt ($000s)		35,369	31,184	31,042	11,076
Debt-to-capitalization ratio (%)		47.8	46.3	49.3	45.0
Financial management assessment	Good	--	--	--	Standard

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Ratings List		
New Issue Ratings		
US$5,275,000 Whitewater, Wisconsin, Waterworks And Sewer System Revenue Bonds, Series 2026B, dated: Date of Delivery, due: May 1, 2046		
Long Term Rating	A/Stable	
Upgraded		
	To	**From**
Water & Sewer		
Whitewater, WI Water and Sewer System Revenues	A/Stable	A-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.