

**Rating Action: Moody's assigns Aa2 to Madison, WI's water utility revenue bonds, MIG 1 to water utility revenue BANs; outlook stable**

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25 Nov 2019

New York, November 25, 2019 -- Moody's Investors Service assigns a Aa2 rating to the City of Madison, WI's \$33.9 million Water Utility Revenue Refunding Bonds, Series 2019A and \$13.1 million Taxable Water Utility Revenue Refunding Bonds, Series 2019B. Concurrently, we assign a MIG 1 to the city's \$20 million Water Utility Revenue Bond Anticipation Notes, Series 2019 and affirm the Aa2 rating on the city's outstanding water utility revenue debt. The outlook has been revised to stable from negative.

**RATINGS RATIONALE**

The Aa2 rating reflects the system's stable customer base that includes the Wisconsin (Aa1 stable) state capital and the University of Wisconsin's flagship campus, improved liquidity and debt service coverage following a drawdown in liquidity and the failure to generate net revenues needed to meet the 1.25x debt service coverage required by its rate covenant in fiscal 2017. Also incorporated are its high debt burden and limited rate setting ability.

The MIG 1 rating on the bond anticipation notes (BAN) incorporates underlying credit characteristics reflected in the water enterprise's Aa2 revenue bond rating and satisfactory management of take-out refinancing risks.

**RATING OUTLOOK**

The stable outlook reflects our expectation that the utility's debt service coverage and liquidity position will remain satisfactory following a rate increase approval.

**FACTORS THAT COULD LEAD TO AN UPGRADE**

- Sustained increases in liquidity
- Continued strengthening of debt service coverage

**FACTORS THAT COULD LEAD TO A DOWNGRADE**

- Inability to maintain debt service coverage in line with legal covenants
- Weakened revenue profile that may require general fund support
- Significant weakening of the city or sewer credit profiles
- Downward movement in the water enterprise's revenue rating (BAN rating only)

**LEGAL SECURITY**

Debt service on the bonds and notes, as well as the system's outstanding revenue debt, is secured by a senior lien on the net revenues of the water utility.

The revenue BANs are secured by the future issuance of revenue bonds, and are considered special obligations of the city payable for net revenues of the water system and other funds appropriated by the city, if necessary.

**USE OF PROCEEDS**

The Series 2019A Bonds will be used to refund the city's outstanding Water Utility Revenue Refunding and Improvement Bonds, Series 2009A and Water Utility Revenue Bonds, Series 2010.

The Series 2019B Bonds will be used refund the city's outstanding Water Utility Revenue Bonds, Series 2011.

Proceeds from the BANs will finance system projects identified in the city's 2019, 2020 and 2021 Water Utility

Projected Annual Capital Spending Plans.

## PROFILE

The utility provides water treatment and distribution to over 68,000 customers within the City of Madison (Aaa stable), as well as the adjacent villages of Maple Bluff and Shorewood Hills, and a portion of the City of Fitchburg (Aa1).

## METHODOLOGY

The principal methodology used in the long-term ratings was US Municipal Utility Revenue Debt published in October 2017. The principal methodology used in the short-term rating was US Bond Anticipation Notes and Related Instruments Methodology published in October 2019. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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