Moody's
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa1 TO ROCK COUNTY (WI) $5.8 MILLION TAXABLE GO PROMISSORY NOTES (RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS - DIRECT PAY)

Global Credit Research - 21 May 2010

Aa1 RATING APPLIES TO $19.3 MILLION OF POST SALE GOULT DEBT

County
WI

Moody's Rating

ISSUE		RATING
Taxable General Obligation Promissory Notes (Recovery Zone Economic Development Bonds - Direct Pay)		Aa1
Sale Amount	$5,815,000	
Expected Sale Date	05/27/10	
Rating Description	General Obligation	

Opinion

NEW YORK, May 21, 2010 -- Moody's Investors Services has assigned a Aa1 rating to Rock County's (WI) $5.8 million Taxable General Obligation Promissory Notes (Recovery Zone Economic Development Bonds - Direct Pay). Concurrently, Moody's has affirmed the Aa1 rating on the county's $13.5 million of general obligation debt. Post-sale the county will have $19.3 million of general obligation debt outstanding. Debt service payments for the notes are secured by the county's general obligation unlimited tax pledge and proceeds will be used to finance various capital improvement projects. The Aa1 rating reflects the county's solid financial position supported by healthy reserves, sizeable tax base and a manageable debt profile.

SIZEABLE TAX BASE EXPERIENCING GROWTH AND DIVERSIFICATION

Rock County is located along the Illinois-Wisconsin border, with direct highway access to the cities of Madison (general obligation rated Aaa), Rockford(Aa2), Milwaukee(Aa1/negative) and Chicago(Aa2/stable). The county's economy has historically been dominated by agriculture as well as manufacturing, specifically concentrated in the cities of Janesville(Aa2) and Beloit(A1). The northern portion of the county, in particular, benefits from its proximity to the city of Madison's strong and stable economy, as residential and commercial projects continue along Interstate 90.

In June 2008 General Motors (GM), announced production at its Janesville plant would end before December 2010. Approximately 2,400 employees were affected by this closure. As a result of the plant's closure, GM is no longer one of the county's top taxpayers and the plant's valuation changes should have little impact on the county's tax base going forward. Although the local economy has historically been dominated by GM, plant downsizing occurring over the last few decades has provided opportunities for diversification in the county's tax base as evidenced by expansion of major taxpayers including Hendericks Holdings, the county's largest taxpayer. Hendericks recently acquired Bradco Supply Corp. and now is one of the largest wholesale distributors of siding, windows, and other select exterior building products with combined sales of over $4 billion. Additionally, in 2009, Kerry Ingredients opened a $50 million commercial and technology center headquarters creating and retaining an estimated 350 positions. Officials continue to leverage the county's favorable location along transportation corridors to spur economic development and these efforts have resulted in new warehousing and distribution businesses. Favorably, a pair of recently announced local expansion projects, SSI Technologies and GHC Specialty Brands demonstrate the continued commitment by existing firms to remain in Rock County. GHC Specialty Brands is investing nearly $3 million into their facility adding up to 130 new positions. SSI has also made a similar capital investment adding an estimated 40 new jobs.

We believe the county's tax base will continue to experience moderate growth over the medium term due to residential development and significant redevelopment projects underway throughout the county and within Janesville and Beloit. The county's large tax base, valued at $10.6 billion in 2009, experienced a slight decline (-0.9%) from 2008 due to the GM closure and reassessment. Despite this modest softening, the county's tax base has continued to exhibit steady growth averaging 5.4% annually over five years. Resident incomes indices approximate state-wide medians, with per capita income and median family income at 98.2% and 100.9%, respectively. The county's February 2010 unemployment rate of 12.7% was substantially higher than the national level of 10.4% for the same period, which primarily reflects the GM closure.

SOUND FINANCIAL OPERATIONS SUPPORTED BY HEALTHY RESERVES AND FINANCIAL FLEXIBILITY

We expect the county's financial operations to remain strong based on its demonstrated ability to control expenditure growth and reduce budget pressures. Though the county's General Fund balance has decreased in recent years, the county has remained within the their formal policy to retain an undesignated general fund balance of between 10% to 17% of total audited General, Special Revenue and Enterprise Fund expenditures. On average, prior to fiscal 2007, the county's General Fund reserves has approximated $23 million (or an ample 57% of General Fund revenues). However, fiscal 2008 ended with a General Fund balance of $17.7 million, but remained a healthy 44.1% of General Fund revenues. In 2008, the county posted an operating deficit of $5 million due to unplanned expenditures related to increased costs of winter maintenance from record snowfalls, two FEMA declared disasters and increased fuel costs. In fiscal 2009 unaudited results indicate the county posted an operating surplus of $840,000, a favorable variance from the original budgeted deficit of $700,000. Management indicates that fiscal 2010 poses particular budgetary challenges, necessitating some form of revenue enhancement or expenditure reduction. As a proactive approach, the county implemented multiple expenditure controls in fiscal 2010, including the elimination of approximately 11 positions and reviewing operations to implement efficiencies where appropriate. Fiscal 2010 is now projected to end with balanced operations. Ongoing expenditure cuts will be required to balance the budget and management expects to continue to exert tight financial control throughout the next fiscal year.

In 2007 the county implemented a 0.5% sales tax, the maximum allowed, with collections beginning in April 2007. The county plans to use the sales tax revenue primarily to support capital projects and to offset the application of General Fund reserves to support operations in the future. Management reports that fiscal 2010 sales tax collections are estimated to be approximately $8.8 million. Of that total, $7 million will be used for operational costs and the remaining amount will be used for capital projects. We believe the flexibility to allocate sales tax revenues to operations is a credit strength and provides future operating flexibility to meet budgetary obligations without tapping General Fund reserves.

MANAGEABLE DEBT PROFILE; ADDITIONAL BORROWING FOR CAPITAL PROJECTS PLANNED

We expect the county's debt profile to remain manageable due to a modest direct debt ratio and rapid principal amortization. At 0.2% of full valuation, the county's direct debt is modest and its overall debt burden of 3.3% is slightly above average due to borrowing by underlying entities. Principal amortization is above average with 100% of debt retired in ten years. In 2011, management projects borrowing for implementation of a sprinkler system for the Rock Haven nursing facility, which is federally mandated. Although officials have yet to size the borrowing amount, costs would be based on the size and scope of the project. The county board is currently evaluating construction costs and timelines on either remodeling of the existing facility or constructing a new facility. The board will decide in the next coming months.

KEY STATISTICS:

2009 Estimated population: 160,635

2009 Full Valuation: $10.6 billion

Full value per capita: $66,033

2000 Per capita income as a % of state: 98.1%

2000 Median family income as a % of state: 100.9%

Rock County unemployment rate (02/10): 12.7%

Direct debt: 0.2% (3.3% overall)

Amortization of principal (10 years): 100%

FY 2008 General Fund balance: $17.7 million (44.1% of General Fund revenues)

Post-sale general obligation debt: $19.3 million

PRINCIPAL METHODOLOGY AND LAST RATING ACTION

The principal methodology used in assigning the rating was General Obligation Bonds Issued by U.S. Local Governments, published on October 2009, and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action with respect to the Rock County Wisconsin was on July 9, 2008, when a municipal finance scale rating of Aa2 was assigned to the County's General Obligation Promissory Notes. That rating was subsequently recalibrated to Aa1 on April 16, 2010.

Analysts

Tatiana Killen
Analyst
Public Finance Group
Moody's Investors Service

Beth A. Dougherty
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

MOODY'S INVESTORS SERVICE