

ISSUER COMMENT

2 February 2016

RATING

General Obligation (or GO Related)¹

Aa3 No Outlook

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City of Washington, IL

Annual Comment on City of Washington

Issuer Profile

Washington City is located in Tazewell County in central Illinois, approximately 10 miles due east of Peoria. Washington City is a home-rule entity. Tazewell County has a population of 135,707 and a population density of 209 people per square mile. The county's per capita personal income is \$41,690 (2nd quartile) and the October 2015 unemployment rate was 6.4% (4th quartile).² Education, health services, retail, and manufacturing are key drivers of the local economy. Caterpillar Inc. is the predominant employer in the area. Walmart, Supermedia LLC, and the Washington School District also rank as top employers in the area.

Credit Overview

Washington City's credit position is of high quality, and its Aa3 rating is level with the median rating of Aa3 for US cities. Notable credit factors include a very healthy financial position, and a mid-ranged pension burden with an affordable debt liability. The rating also reflects the city's modest tax base with a favorable socioeconomic profile.

Finances: The city has a robust financial position, which is strong with respect to the assigned rating of Aa3. The fund balance as a percent of operating revenues (118.1%) far surpasses the US median. Furthermore, the net cash balance as a percent of revenues (141.9%) is far superior to other Moody's-rated cities nationwide and saw an impressive increase from 2012 to 2015.

Debt and Pensions: The debt and pension liabilities of the city are low and are in line with its Aa3 rating. The net direct debt to full value (1.6%) slightly exceeds the US median. The Moody's-adjusted net pension liability to operating revenues (1.2x) is slightly below the US median; however, this indicator unfavorably rose modestly between 2012 and 2015. Positively, the city has met its actuarially required contribution.

Economy and Tax Base: The city has a solid economy and tax base; however, they are slightly weak relative to the Aa3 rating assigned. The full value per capita (\$55,457) is slightly below the US median and fell from 2012 to 2015. Also, the median family income equals a healthy 123.1% of the US level. Lastly, the total full value (\$877 million) is weaker than other Moody's-rated cities nationwide and declined in fiscal 2015. Notably, the recent contraction in full value is largely attributed to a recent tornado, which hit the city in November 2013. The city anticipates its local tax base expanding in fiscal 2016.

Management and Governance: Surplus operating margins typically exhibit strong financial management. Favorably, on average, Washington City's operations were positive from 2012 through 2015; concurrently, the city's tax base shrank modestly.

Illinois cities have an institutional framework score ³ of "A," or moderate. Revenue predictability is moderate, with varying dependence on property, sales, and state-distributed income taxes. Revenue-raising ability is also moderate but varies. Home rule entities have substantial revenue-raising authority. Non-home rule entities are subject to tax rate limitations, and total operating tax yield for non-home rule entities subject to the Property Extension Limitation Law (PTELL) is capped at the lesser of 5% or CPI growth, plus new construction. Expenditures are moderately predictable but cities have limited ability to reduce them given costs for pension benefits that enjoy strong constitutional protections.

Sector Trends - Illinois Cities

Illinois cities (a sector that includes cities, towns, and villages) face uncertainty stemming from the state's budgetary challenges. The governor has proposed cutting income tax distributions to cities and freezing property tax revenues. Property valuation declines have been severe in the northern region of the state, translating into reduced operating revenue for some municipalities. However, downstate valuations have remained largely stable in recent years. Most cities have been making pension contributions at or near actuarial guidelines and are therefore not expected to face dramatic pension cost increases in 2016 when the state can enforce minimum contributions.

Exhibit 1

Key Indicators^{4 5}

Washington City, IL

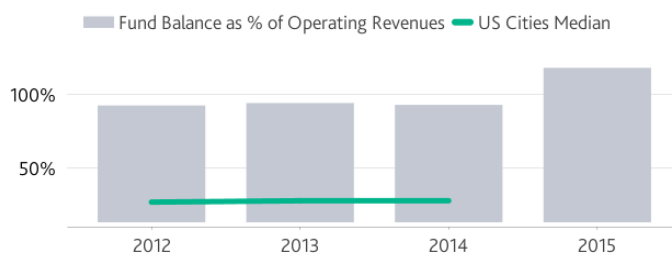
	2012	2013	2014	2015	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	\$909M	\$918M	\$938M	\$877M	\$1,727M	Stable
Full Value Per Capita	\$58,991	\$58,403	\$59,292	\$55,457	\$89,077	Weakening
Median Family Income (% of US Median)	123.1%	123.1%	123.1%	123.1%	115.2%	Stable
Finances						
Fund Balance as % of Operating Revenues	92.5%	94.2%	92.9%	118.1%	27.7%	Improving
Cash Balance as % of Operating Revenues	74.3%	79.1%	74.1%	141.9%	30.1%	Improving
Debt / Pensions						
Net Direct Debt / Full Value	0.62%	0.64%	1.1%	1.6%	1.1%	Weakening
Net Direct Debt / Operating Revenues	0.65x	0.62x	0.94x	1.29x	0.93x	Weakening
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.86%	1.1%	1.2%	1.4%	1.5%	Weakening
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.89x	1.04x	1.04x	1.19x	1.20x	Stable

Source: Moody's

Exhibit 2

Fund balance as a percent of operating revenues increased from 2012 to 2015

Fund Balance as a Percent of Operating Revenues



Source: Issuer financial statements; Moody's

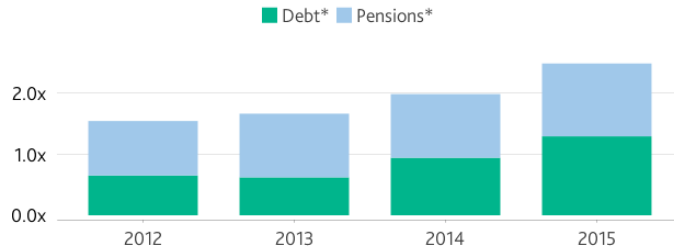
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Exhibit 3
Total full value decreased modestly between 2012 and 2015
 Total Full Value



Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Exhibit 4
Moody's-adjusted net pension liability to operating revenues grew slightly from 2012 to 2015
 Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues



*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.
 Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Endnotes

- 1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See [Local Government GO Pledges Vary Across States](#), for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantee or enhancement programs or bond insurance.
- 2 The per capita personal income data and unemployment data for all counties in the US census are allocated to quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is \$46,049 for 2014. The median unemployment rate for US counties is 4.7 % for October 2015.
- 3 The institutional framework score measures a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(January 2014\)](#) for more details.
- 4 For definitions of the metrics in the Key Indicators Table, see [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey. Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years. Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Updated 2013 US Local Government Medians Demonstrate Stability of Sector \(August 2015\)](#). The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014. As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2013. However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians. Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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