

# RatingsDirect®

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## Summary:

# Kaukauna, Wisconsin; Appropriations; General Obligation

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### Credit Profile

US\$5.95 mil taxable GO rfdg bnds ser 2019B dtd 10/30/2019 due 06/01/2028		
<i>Long Term Rating</i>	AA-/Stable	New
US\$5.025 mil GO prom notes ser 2019A dtd 10/30/2019 due 09/01/2029		
<i>Long Term Rating</i>	AA-/Stable	New
Kaukauna GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<b>Kaukauna Redev Auth, Wisconsin</b>		
Kaukauna, Wisconsin		
Kaukauna Redev Auth APPROP		
<i>Long Term Rating</i>	A+/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AA-' rating and stable outlook to Kaukauna, Wis.' series 2019A general obligation (GO) promissory notes and series 2019B GO refunding bonds and affirmed its 'AA-' rating, with a stable outlook, on the city's existing GO debt.

S&P Global Ratings also affirmed its 'A+' rating, with a stable outlook, on Kaukauna Redevelopment Authority's redevelopment lease revenue debt, supported by the city.

### Security and use of proceeds

Kaukauna's unlimited-ad valorem-property-tax pledge secures the series 2019A notes and 2019B bonds.

Officials intend to use series 2019A note proceeds to fund park improvements and street construction and improvements and finance the acquisition of vehicles and equipment. They also plan to use series 2019B bond proceeds to refund the city's series 2010D and 2018 bonds for debt-service-cost savings.

The authority's lease revenue bonds are payable from the city's lease-rental payments, in accordance with a lease agreement between the city and authority. The city's conditional obligation to pay rental payments reflects its quiet enjoyment of the leased property. We rate the authority's bonds one notch below the city's GO debt due to annual appropriation risk.

### Credit summary

Kaukauna has direct access to, and participates in, Appleton's and Green Bay's economies. Although state law provides Kaukauna with little revenue flexibility, management has built and retained very strong reserves through careful fiscal planning and budgetary oversight. We view the city's weak debt profile as a credit concern. However, as a Wisconsin

Retirement System (WRS) participant, one of the nation's best-funded pension plans, the city's pension liabilities and ability to keep up with employer contributions are not a concern.

The GO rating reflects our opinion of the city's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental-fund level in fiscal 2018;
- Very strong budgetary flexibility, with available fund balance in fiscal 2018 at 34% of operating expenditures;
- Very strong liquidity, with total government available cash at 145.1% of total governmental-fund expenditures and 6.2x governmental debt service, and access to external liquidity we consider strong;
- Weak debt-and-contingent-liability position, with debt service carrying charges at 23.3% of expenditures and net direct debt that is 230% of total governmental-fund revenue, but rapid amortization, with 68.1% of debt scheduled to be retired within 10 years; and
- Adequate institutional framework score.

### **Adequate economy**

We consider Kaukauna's economy adequate. The city, with an estimated population of 16,278, is in Outagamie County in the Appleton MSA, which we consider broad and diverse. The city has a projected per capita effective buying income at 95.3% of the national level and per capita market value of \$70,881. Overall, market value has been stable during the past year at \$1.2 billion in fiscal 2020. County unemployment was 2.8% in 2018.

Kaukauna is in east-central Wisconsin on Fox River, about 25 miles southwest of Green Bay and 105 miles north of Milwaukee. Leading employers include:

- Ahlstrom Munksjo (1,800 employees),
- Kaukauna School District (450), and
- St. Paul Elder Care (299).

The city's economic score currently benefits from its participation in the broad and diverse Appleton MSA. If the economy is no longer broad and diverse, the score could weaken.

### **Strong management**

We view the city's financial management as strong, with good financial policies and practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Kaukauna uses modified, zero-based budgeting, including two years' to three years' historical data and outside sources at the county and state level. It does not use long-term financial planning. Management provides monthly reports on budget-to-actual results to the city council. Management annually updates a five-year, formal capital improvement

plan.

While Kaukauna lacks its own investment- and debt-management policies, it follows state guidelines for investment holdings and earnings and reports the results to the council annually. Management also follows a formally adopted minimum fund-balance policy.

### **Strong budgetary performance**

Kaukauna's budgetary performance is strong, in our opinion. The city had operating surpluses at 2.4% of expenditures in the general fund and 3% across all governmental funds in fiscal 2018.

Our analysis of Kaukauna's budgetary performance includes adjustments for routine transfers into the general fund and the removal of one-time capital-outlay expenditures. Management attributes the 2.4% fiscal 2018 general fund surplus to midyear adjustments for public-charges-for-services fees to align them with costs.

Kaukauna adopted a balanced fiscal 2019 budget. Management's midyear expectations indicate a \$100,000-\$200,000 general fund surplus. While management expects to adopt a balanced fiscal 2020 budget, it has not yet done so officially. Since management does not expect one-time expenditures, and because it expects at least balanced results, we expect Kaukauna will likely maintain strong budgetary performance.

### **Very strong budgetary flexibility**

Kaukauna's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2018 at 34% of operating expenditures, or \$4.8 million. We expect available fund balance will likely remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Due to an expected general fund surplus in fiscal 2019, we posit budgetary flexibility will likely remain very strong during the next two fiscal years.

### **Very strong liquidity**

In our opinion, Kaukauna's liquidity is very strong, with total government available cash at 145.1% of total governmental-fund expenditures and 6.2x governmental debt service in fiscal 2018. In our view, the city has strong access to external liquidity if necessary.

Kaukauna's regular GO and revenue debt issuance during the past 15 years demonstrates its strong market access. The city does not have any direct-purchase or private-placement obligations. We do not consider investments aggressive because Kaukauna primarily invests in money-market funds, government securities, and the local government investment pool. We do not expect liquidity will likely weaken during the next few fiscal years.

### **Weak debt-and-contingent-liability profile**

In our view, Kaukauna's debt-and-contingent-liability profile is weak. Total governmental-fund debt service is 23.3% of total governmental-fund expenditures, and net direct debt is 230% of total governmental-fund revenue. About 68.1% of direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Officials currently expect to issue \$4 million-\$8 million of GO bonds during the next two years for routine capital projects.

Kaukauna's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled roughly 6.3% of total governmental-fund expenditures in fiscal 2018: 4.6% represented required contributions to pension obligations and 1.7% represented OPEB payments. The city made its full annual required pension contribution in fiscal 2018.

Kaukauna participates in WRS, which is overfunded. For fiscal 2018, the city reported an asset of about \$2.8 million for its proportionate share of WRS' net pension liability. At fiscal year-end Dec. 31, 2018, the city's portion of WRS contributions totaled \$981,000.

Kaukauna provides OPEB through the utilities and city plans. For fiscal 2018, city OPEB contributions to the utilities plan totaled \$65,000; in addition, Kaukauna contributed \$246,000 to the city plan. The city's current funding practice is to pay benefits due in a given year on a pay-as-you-go basis.

### **Adequate institutional framework**

The institutional framework score for Wisconsin cities and villages with a population less than 25,000 is adequate.

## **Outlook**

The stable outlook reflects S&P Global Ratings' opinion it does not expect to change the rating during the two-year outlook period because it thinks Kaukauna will likely maintain very strong budgetary flexibility and liquidity. In our opinion, strong management provides additional stability.

### **Upside scenario**

We could raise the rating if economic metrics were to improve to levels we consider comparable with higher-rated peers.

### **Downside scenario**

We could lower the rating if budgetary performance or flexibility were to weaken.

## **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2018 Update Of Institutional Framework For U.S. Local Governments

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