

**Summary:**

# Kaukauna, Wisconsin; General Obligation

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## Summary:

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### Credit Profile

US\$5.925 mil GO prom nts ser 2022A dtd 3//20/05/0 due 03/01/2032

*Long Term Rating*

AA-/Stable

New

## Rating Action

S&P Global Ratings assigned its 'AA-' rating and stable outlook to Kaukauna, Wis.' roughly \$5.925 million series 2022A general obligation (GO) promissory notes.

The city's full-faith-credit-and-resource pledge and agreement to levy ad valorem property taxes without limitation as to rate or amount secure the series 2022A notes.

Officials will use series 2022A note proceeds to finance park and pool improvements, city building improvements, and grounds and facilities and fund the acquisition of vehicles and equipment.

### Credit overview

While income and the property tax base are only adequate compared to Kaukauna's peers, the city's strong financial profile supports the rating. Kaukauna has only some long-term planning and policies, but we think management's conservative budgeting has supported consistent operating results and very strong liquidity and reserves. We do not think there is any major credit pressure outstanding, so we expect the rating will likely remain stable during the two-year outlook.

The rating reflects our view of the city's:

- Adequate economy with access to jobs in the broad and diverse Appleton and Green Bay metropolitan statistical areas (MSAs) and positive valuation growth;
- Consistent budgetary performance with no major pressure and maintenance of very strong reserves and liquidity;
- Adequate financial management with standard financial policies and practices under our Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas; and
- Weak debt-and-contingent-liability profile with elevated debt service, offset by rapid amortization.

### Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to the city's economy, management, financial measures, and debt-and-liability profile and have determined all are in-line with our view of the sector standard. Outagamie County's population trends demonstrate slight growth, which is positive compared with similar-sized counties in other parts of the state.

## Stable Outlook

### Downside scenario

We could consider a lower rating action if Kaukauna does not maintain balanced operations and, at least, adequate budgetary performance, resulting in material flexibility deterioration.

### Upside scenario

We could consider a higher rating action if the local economy were to diversify, demonstrated by tax base growth and improved income, and if debt were to decrease, which we do not expect to occur during the next few years.

## Credit Opinion

### **Adequate economy with access to jobs in the broad, diverse Appleton and Green Bay MSAs and positive valuation growth**

Kaukauna is in Outagamie County, approximately 12 miles north of Appleton and 24 miles south of Green Bay in the Fox Cities area. Residents have access to ample employment opportunities in Kaukauna and the greater Fox River area. Officials report commercial and residential activity continued during 2020. Two leading employers set to expand operations are pipe fabricator Team Industries Inc. (310 employees) and frozen food manufacturer Bernatellos Foods Inc. (150). In addition, demand for new housing is high; officials report approximately 70-120 residential lots have been sold before development. Valuations have grown recently with new development contributing to positive market valuations, which increased by 4.7% in 2020.

### **Adequate financial management with standard financial policies and practices**

We revised our view of management to adequate from good based on our understanding that management does not provide recurring robust reports on budget-to-actual results to the city council.

Highlights include management's:

- Use of historical information when formulating upcoming revenue and expenditure assumptions with the help of outside sources and zero-based budgeting;
- Monthly checks payable and check register reports to the council, with no reports on budget-to-actual performance, and an ability to amend the budget, as needed;
- Annual investment-and-holdings reports, within the audit, to the council;
- Five-year capital plan, which it updates annually with projects and funding sources identified;
- Fund-balance policy of maintaining 15% of expenditures in unassigned general fund balance, which the city currently exceeds;
- Lack of long-term planning for operations and specific investment- or debt-management policies--It, however, follows state statutes; and
- Active engagement in cyber-risk mitigation efforts.

## **Consistent budgetary performance with no major pressure and maintenance of very strong reserves and liquidity**

Kaukauna maintained strong general fund reserves due to conservative budgeting during the past several fiscal years. We do not think there is any notable pressure on finances to alter this strong financial trajectory. Officials structured the fiscal 2021 breakeven budget, and management reports fiscal year-end results show a modest deficit. The city received \$1.7 million in American Rescue Plan Act of 2021 funds, which it will use for various capital improvements.

In fiscal 2020, the city posted a general fund surplus of \$160,000 after adjusting for recurring transfers and one-time capital expenditures. Officials attribute the general fund result to program savings related to COVID-19 closures and additional state and federal aid. The city received \$272,000 in Coronavirus Aid, Relief, & Economic Security Act funding, which it shared with its utility to cover pandemic-related expenses. In fiscal 2020, property taxes accounted for 51% of general fund revenue, followed by intergovernmental sources at 35% and public charges for services at 9%. State aid and property taxes have been stable revenue sources for the city.

At 36% of general fund expenditures, Kaukauna maintains very strong flexibility, in our view. With no plans to draw down general fund reserves and a fund-balance policy of maintaining 15% of expenditures, we expect the city will likely maintain very strong reserves.

It held \$25.8 million in total available cash as of Dec. 31, 2020, and maintained very strong liquidity, in our view. Kaukauna does not have any direct-purchase or variable-rate debt. We understand the city does not have significant contingent liabilities that could have an effect on liquidity. We do not expect our view of liquidity will likely change during the next two fiscal years.

## **Weak debt-and-contingent-liability profile with elevated debt service, offset by rapid amortization**

Kaukauna's debt service carrying charge at 18.5% of total government expenditures is high compared with similar-rated peers, slightly offset by rapid amortization with officials planning to retire 79% of debt during the next 10 years. Officials currently expect to issue approximately \$6 million of additional GO bonds during the next two years for routine capital projects; however, more debt is set to retire during that period. We do not expect our view of Kaukauna's debt to change materially during the next two fiscal years.

## **Manageable pension and other postemployment benefit (OPEB) profile**

Kaukauna participates in Wisconsin Retirement System (WRS), a multiple-employer, defined-benefit pension plan that has routinely been among the nation's best-funded multiple-employer pension plans. As of Dec. 31, 2020, the city's WRS pension plan was 105.3% funded, with a net pension asset of \$3 million. The city offers OPEB, which it funds on a pay-as-you-go basis, with a net liability of \$7.9 million as of Dec. 31, 2020.

WRS contributions are actuarially based, and the city funds 100% of its required contribution annually. Although the investment-rate-of-return assumption of 7% exceeds our 6% guideline, WRS' employment of a shared-risk model--where active-employee-contribution changes and benefit-payment adjustments somewhat offset investment-performance fluctuations--somewhat mitigates market-volatility exposure. Because of these features, we expect contributions will likely remain relatively stable; due to WRS' strong funding and contribution practices, we expect contributions will likely remain affordable. Although the city funds OPEB on a pay-as-you-go basis, exposing it to potential cost acceleration, we expect medium-term costs will likely remain only a small share of total spending and,

therefore, not a significant budgetary pressure.

## Adequate Institutional Framework

The Institutional Framework score for Wisconsin municipalities is adequate.

	Most recent	--Historical information--		
		2020	2019	2018
<b>Adequate economy</b>				
Projected per capita effective buying income as a % of U.S.	95.2			
Market value per capita (\$)	72,874			
Population		16,581	16,458	16,450
County unemployment rate(%)		5.5		
Market value (\$000)		1,208,319	1,153,794	1,088,411
10 leading taxpayers as a % of taxable value		9.2		
<b>Strong budgetary performance</b>				
Operating fund result as a % of expenditures		1.1	1.4	2.4
Total governmental fund result as a % of expenditures		0.2	0.1	3.0
<b>Very strong budgetary flexibility</b>				
Available reserves as a % of operating expenditures		36.0	36.1	34.3
Total available reserves (\$000)		5,170	5,012	4,826
<b>Very strong liquidity</b>				
Total government cash as a % of governmental fund expenditures		98.5	148.4	145.1
Total government cash as a % of governmental fund debt service		441.0	554.9	621.7
<b>Adequate management</b>				
Financial Management Assessment	Standard			
<b>Weak debt and long-term liabilities</b>				
Debt service as a % of governmental fund expenditures		22.3	26.7	23.3
Net direct debt as a % of governmental fund revenue	220.8			
Overall net debt as a % of market value	6.8			
Direct debt 10-year amortization (%)	74.5			
Required pension contribution as a % of governmental fund expenditures		4.1		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		1.4		
<b>Adequate Institutional Framework</b>				

Data points and ratios may reflect analytical adjustments.

## 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

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.