

RatingsDirect®

Summary:

Kaukauna, Wisconsin; Appropriations; General Obligation

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Credit Profile

US\$4.785 mil taxable note antic nts ser 2023C dtd 08/01/2023 due 06/01/2026		
<i>Long Term Rating</i>	A+/Stable	New
US\$4.5 mil note antic nts ser 2023B dtd 08/01/2023 due 06/01/2028		
<i>Long Term Rating</i>	A+/Stable	New
US\$3.24 mil GO prom nts ser 2023A dtd 08/01/2023 due 06/01/2033		
<i>Long Term Rating</i>	AA-/Stable	New
Kaukauna GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Kaukauna GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Kaukauna Redevelopment Authority, Wisconsin		
Kaukauna, Wisconsin		
Kaukauna Redev Auth (Kaukauna) APPROP		
<i>Long Term Rating</i>	A+/Stable	Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to the City of Kaukauna, Wis.' \$3.2 million series 2023A general obligation (GO) promissory notes.
- At the same time, we assigned our 'A+' long-term rating to the city's \$4.5 million series 2023B note anticipation notes (NANs) and \$4.7 million series 2023C taxable NANs.
- In addition, we affirmed our 'AA-' long term rating on the city's existing GO debt and its 'A+' rating on the Kaukauna Redevelopment Authority's redevelopment lease revenue debt, supported by the city.
- The outlook on all ratings is stable.

Security

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 2023A GO promissory notes and existing GO debt. The series 2023B and 2023C NANs are secured by proceeds of the NANs set aside for the payment of interest, proceeds from the future sale of GO promissory notes, and to the extent these amounts are insufficient, available funds subject to annual appropriation.

Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligor's Creditworthiness," published Nov. 20, 2019, the rating on the series 2023B and 2023C NANs are one notch lower than

the city's general creditworthiness, as reflected in the GO rating, due to the appropriation risk associated with debt service payments.

The authority's existing 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.

Officials will use the series 2023A note proceeds to finance park improvements, city building improvements, and grounds and facilities and fund the acquisition of vehicles and equipment. The series 2023B and 2023C NANs are being used to finance pool reconstruction projects and for tax increment district development incentives, respectively.

Credit overview

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. The city's tax base grew by an annual average of 8% over the past three years, fueled by strong housing development and reassessments of existing properties. The tax base is primarily residential, with 76% of taxable property consisting of residential properties. The city's budgetary performance is adequate, in our view, with a general fund deficit in fiscal 2022 (year-end Dec. 31) after adjusting for one-time revenue from the sale of property. The city is on track for a small surplus in fiscal 2023, driven by lower expenditures associated with lower personnel expenses. Major revenue streams include taxes (mostly property taxes) at 52% of general fund revenue, followed by intergovernmental revenue (33%). After adjusting for a receivable owed to the general fund, the city's reserve position is very strong at 25% of general fund expenditures.

Consistent with our assessment in previous years, Kaukauna's debt profile is weak, with a substantial debt burden as a percent of its total governmental funds revenue and high debt service carrying charges. The city expects to issue another \$10 million in GO debt during the next two years. Rapid amortization is a credit strength for the city, in our view. The city participates in the 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, 2021, the WRS was 106% funded, with a net pension asset of \$7.6 million. The city offers other postemployment benefits (OPEB), which it funds on a pay-as-you-go basis, with a net liability of \$8.4 million as of Dec. 31, 2022.

The rating reflects our view of the city's:

- Strong economy in the broad and diverse Appleton metropolitan statistical area, highlighted by robust valuation gains, which is offset somewhat by weaker incomes;
- Very strong reserves and liquidity, supported by stable operating performance, which is expected to continue;
- Weak debt and contingent liability profile with elevated debt service, with a well-funded pension plan; and
- Adequate financial management with standard financial policies and practices under our Financial Management Assessment methodology, with a five-year capital improvement plan; and a strong institutional framework score.

Environmental, social, and governance

We analyzed environmental, social, and governance (ESG) risks relative to the city's economy, management, financial measures, and debt and liability profile and view them as neutral considerations in our credit analysis.

Outlook

The stable outlook reflects our belief that the city will maintain stable operations during the next few years while sustaining its very strong reserve and liquidity position.

Downside scenario

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

Upside scenario

A higher rating is possible if the local economy demonstrates improved incomes, the city develops more robust management policies, and if its debt burden moderates significantly, which we consider unlikely during the next few years.

Kaukauna, Wis.--Key Credit Metrics				
	Most recent	Historical information		
		2022	2021	2020
Strong economy				
Projected per capita EBI % of U.S.	93.5			
Market value per capita (\$)	88,194			
Population			16,592	16,581
County unemployment rate(%)		2.5		
Market value (\$000)	1,463,310	1,314,411	1,208,319	1,153,794
Ten largest taxpayers % of taxable value	9.7			
Adequate budgetary performance				
Operating fund result % of expenditures		-3.4	-1.9	1.1
Total governmental fund result % of expenditures		-5.6	5.0	0.2
Very strong budgetary flexibility				
Available reserves % of operating expenditures		25.1	33.4	36.0
Total available reserves (\$000)		3,871	4,846	5,170
Very strong liquidity				
Total government cash % of governmental fund expenditures		133.1	145.5	98.5
Total government cash % of governmental fund debt service		503.6	492.8	441.0
Adequate management				
Financial Management Assessment	Standard			
Weak debt and long-term liabilities				
Debt service % of governmental fund expenditures		26.4	29.5	22.3
Net direct debt % of governmental fund revenue	289.0			

Kaukauna, Wis.--Key Credit Metrics (cont.)

	Most recent	Historical information		
		2022	2021	2020
Overall net debt % of market value	6.0			
Direct debt 10-year amortization (%)	76.1			
Required pension contribution % of governmental fund expenditures		4.6		
OPEB actual contribution % of governmental fund expenditures		0.0		

Strong institutional framework

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Credit Conditions North America Q2 2022: Hazard Ahead: Risk Intersection, April 16, 2021
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 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
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments

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