

RatingsDirect®

Summary:

Kaukauna, Wisconsin; Appropriations; General Obligation

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Credit Profile

US\$7.87 mil note antic nts ser 2024B due 06/01/2029

<i>Long Term Rating</i>	A+/Stable	New
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US\$5.475 mil GO prom nts ser 2024A due 06/01/2035

<i>Long Term Rating</i>	AA-/Stable	New
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Kaukauna GO

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Kaukauna Redevelopment Authority, Wisconsin

Kaukauna, Wisconsin

Kaukauna Redev Auth (Kaukauna) APPROP

<i>Long Term Rating</i>	A+/Stable	Affirmed
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Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to the City of Kaukauna, Wis.' \$5.4 million series 2024A general obligation (GO) promissory notes.
- At the same time, we assigned our 'A+' long-term rating to the city's \$7.8 million series 2024B taxable note anticipation notes (NANs).
- In addition, we affirmed our 'AA-' long term rating (SPUR) on the city's existing GO debt, 'A+' long-term rating on the city's existing NANs subject to annual appropriation, and our '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 2024A GO promissory notes and existing GO debt. The series 2024B 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 Obligors' Creditworthiness," published Nov. 20, 2019, the rating on the series 2024B NANs is 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 2024A note proceeds to finance city building improvements, grounds and facilities, park and pool improvements, street improvements, and the acquisition of vehicles and equipment. The series 2024B NANs are being used to pay development incentives and to fund developer loans in tax-increment finance (TIF) districts.

Credit overview

The city has experienced significant tax base gains in recent years, with its equalized valuation (EV) growing by an annual average of 12% over the past three years, fueled by strong housing development and reassessments of existing properties. Officials indicate that new housing developments are ongoing, with approximately 70 residential lots being developed within the city. The tax base is primarily residential, with 77% of taxable property consisting of residential properties. The city expects another year of significant tax base growth in 2024. With regard to finances, 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 expected to report a 2.1% surplus in the general fund in unaudited fiscal 2023, a result driven primarily by higher interest income. For fiscal 2024, officials indicate that the city is on track with its budget and should achieve a small general fund surplus by fiscal year-end. 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 from one of its TIF districts, the city's reserve position is very strong at 25% of general fund expenditures.

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. Rapid amortization is a credit strength for the city, in our view.

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 annual debt service carry charges; with an additional \$6 million planned within the next two years. The pension plan is well-funded with risk mitigating features. (See "Pension Spotlight: Risk Sharing Dilutes Pension Burden For Five States," published April 21, 2021, on RatingsDirect); 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. We note that the city experienced a tornado in May 2024, which led to some damage, although we do not consider the event as indicative of the city experiencing higher environmental risk than other similarly situated municipalities.

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 reserves.

Upside scenario

A higher rating is possible if the local economy demonstrates improved incomes 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.	88.8			
Market value per capita (\$)	101,409	78,327	72,825	69,585
Population		16,781	16,592	16,581
County unemployment rate(%)		2.5		
Market value (\$000)	1,701,745	1,314,411	1,208,319	1,153,794
Ten largest taxpayers % of taxable value	9.0			
Adequate budgetary performance				
Operating fund result % of expenditures		-3.4	-1.9	1.1
Total governmental fund result % of expenditures		-5.8	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		136.9	145.5	98.5
Total government cash % of governmental fund debt service		519.3	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	281.1			
Overall net debt % of market value	5.0			
Direct debt 10-year amortization (%)	80.8			
Required pension contribution % of governmental fund expenditures		4.6		
OPEB actual contribution % of governmental fund expenditures		0.0		

Kaukauna, Wis.--Key credit metrics (cont.)

	Most recent	Historical information		
		2022	2021	2020

Strong institutional framework

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

Related Research

- 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
- 2023 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of June 7, 2024)

Kaukauna note antic nts ser 2023B dtd 08/01/2023 due 06/01/2028		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Kaukauna taxable note antic nts ser 2023C dtd 08/01/2023 due 06/01/2026		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Kaukauna GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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