

Research Update:

Kaukauna, WI Series 2025A GO Promissory Notes Assigned 'AA-' Rating; Outlook Stable

May 23, 2025

Overview

- S&P Global Ratings assigned its 'AA-' long-term rating to the City of Kaukauna, Wis.' \$4.8 million series 2025A general obligation (GO) promissory notes.
- In addition, we affirmed our 'AA-' long term rating on Kaukauna's existing GO debt, 'A+' long-term rating on the city's existing note anticipation notes (NANs) subject to annual appropriation, and our 'A+' rating on the Kaukauna Redevelopment Authority's redevelopment lease revenue debt, supported by the city.
- The ratings reflect the application of our "Methodology For Rating U.S. Governments," published Sept. 9, 2024.
- The outlook on all ratings is stable.

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Rationale

Security

The city's full faith and credit pledge and agreement to levy ad valorem property taxes without limitation as to rate or amount secure the series 2025A GO promissory notes and existing GO debt. The city's existing 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, Nov. 20, 2019," published Nov. 20, 2019, the rating on existing 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. Kaukauna's conditional

obligation to pay rental payments reflects the city's 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 2025A note proceeds to finance city building improvements, grounds and facilities, street improvements, and the acquisition of vehicles and equipment.

Credit highlights

Kaukauna's economic and financial position is supported by a growing tax base and access to the Appleton metropolitan statistical area (MSA). With two consecutive audited surpluses and a break-even result anticipated in unaudited fiscal 2025 (fiscal year-end Dec. 31), the city's trend of positive operations reflects conservative budgeting practices leading to positive revenue and expenditure variances. Kaukauna's annual debt service carrying charges and net direct per capita are elevated, though the city has managed its high debt burden historically, which we expect will continue.

The city's location in the growing Fox Cities region of Wisconsin serves as the anchor for the local economy, which is reflected in Kaukauna's above-average economic metrics. The city continues to experience commercial and multifamily housing development in north side of the city. Equalized valuation grew by 8.7% in 2024, and similar growth trends are anticipated in 2025. We note that Kaukauna's higher manufacturing component of its employment base could leave the city exposed to economic instability should the economic effects of ongoing international trade disputes become pronounced. With regard to finances, the city posted two strong years of operational performance in fiscal years 2023 and 2024, highlighted by a strong 9.1% surplus (\$1.5 million) in audited fiscal 2024 that was spurred by higher interest income revenue and reduced expenditures associated with open positions. We understand that officials expect a break-even result in fiscal 2025 against a \$700,000 budgeted deficit, primarily due to positional vacancies, and has no specific plans to draw down in fiscal 2026. Kaukauna's reserves are healthy, with an available fund balance that has been increasing in recent years to over 40% of revenue in fiscal 2024. Although we consider Kaukauna's management policies somewhat limited, with no investment or debt management policies, the city recently bolstered its reserve policy to 30% of expenditures from 15%. Kaukauna's debt profile has historically been high, with elevated debt-service carrying charges and high net direct per capita, the city has managed this elevated debt burden without it adversely affecting its operations. While the city plans to issue another \$10 million during the next few years for regular capital projects, this aggregate amount is consistent with previous years. Kaukauna participates in the Wisconsin Retirement System, one of the best-funded public pension plans in the nation, and annual pension costs have been stable with a minimal budgetary impact. Although macroeconomic headwinds might affect future economic conditions in the city, we expect continued operational stability over the near term, enabling it to maintain consistent reserve levels despite these economic uncertainties.

The rating further reflects our opinion of Kaukauna's:

- Above-average per capita gross county product and per capita county personal incomes at 99.6% and 93.2% of U.S. respectively, reflecting the city's participation in the Appleton MSA and strong valuation gains. Kaukauna's second-largest employment sector is manufacturing, which could leave the city exposed to possible economic instability should the adverse effects of ongoing trade disputes lead to higher costs for manufacturing firms. See "Economic Research: U.S. Economic Outlook Update: Higher Tariffs And Policy Uncertainty To Weaken Growth," published May 1, 2025, on RatingsDirect.

- Healthy financial performance, with two consecutive audited surpluses, driven in part by higher interest income and reduced expenditures associated with conservative budgeting leading to reduced expenditures. Officials expect a break-even result in fiscal 2025.
- Growing reserves, with an increase in the available fund balance to 41% of revenue in audited fiscal 2024, reflecting a commitment by management to increase reserves to levels consistent with a newly adopted reserve policy of 30% of expenditures.
- Basic management policies and practices, with the use of three-to-five years of historical data in developing the budget, but limited by the lack of regular written budget monitoring. Future capital planning exists in the form of a five-year, annually updated capital plan with costs and sources of funding identified. The city has recently adopted a five-year operational plan that it will implement and update annually. Although Kaukauna does not have an investment or debt management policies, it recently bolstered its reserve policy to 30% expenditures from 15%.
- High debt burden, with elevated costs for debt and liabilities over 30% and high net direct per capita. The city plans to issue another \$10 million in new money debt during the next two years for regular capital projects, consistent with past practice. Kaukauna participates in the well-funded Wisconsin Retirement System, which has a limited impact on the city's budget given its low annual costs.
- The city's institutional framework is consistent with most other municipalities in Wisconsin. For more information on our institutional framework assessment for Wisconsin municipalities, see "Institutional Framework Assessment: Wisconsin Local Governments," published Sept. 10, 2024.

Environmental, social, and governance

We analyzed environmental, social, and governance risks relative to Kaukauna'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 it experiencing higher environmental risk than other similarly situated municipalities.

Outlook

The stable outlook reflects our belief that Kaukauna will maintain stable operations during the next few years while sustaining healthy reserves, while managing its elevated debt profile and possible macroeconomic risk.

Downside scenario

We could consider a negative rating action if Kaukauna does not maintain balanced operations resulting in a deterioration in reserves, or if its elevated debt burden creates fiscal stress for the city.

Upside scenario

A positive rating action is possible if Kaukauna's debt burden moderates significantly and the city's management practices materially improve, while maintaining or improving on other credit factors.

Kaukauna, Wisconsin--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.5
Economy	2.0
Financial performance	2
Reserves and liquidity	1
Management	3.00
Debt and liabilities	4.5

Kaukauna, Wisconsin--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	100	--	100	101
County PCPI % of U.S.	93	--	93	93
Market value (\$000s)	1,836,323	1,701,745	1,463,310	1,314,411
Market value per capita (\$)	104,147	96,515	82,992	78,327
Top 10 taxpayers % of taxable value	9.0	9.0	--	-
County unemployment rate (%)	2.7	2.6	2.4	2.5
Local median household EBI % of U.S.	99	--	99	102
Local per capita EBI % of U.S.	85	--	85	92
Local population	17,632	--	17,632	16,781
Financial performance				
Operating fund revenues (\$000s)	--	16,698	15,086	14,895
Operating fund expenditures (\$000s)	--	17,354	16,799	15,422
Net transfers and other adjustments (\$000s)	--	2,172	2,065	-
Operating result (\$000s)	--	1,516	352	(527)
Operating result % of revenues	--	9.1	2.3	(3.5)
Operating result three-year average %	--	2.6	(1.1)	(1.5)
Reserves and liquidity				
Available reserves % of operating revenues	--	41.0	36.0	26.0
Available reserves (\$000s)	--	6,845	5,437	3,871
Debt and liabilities				
Debt service cost % of revenues	--	26.7	26.3	28.0

Kaukauna, Wisconsin--key credit metrics

	Most recent	2024	2023	2022
Economy				
Net direct debt per capita (\$)	3,313	3,232	3,250	3,555
Net direct debt (\$000s)	58,419	56,988	57,303	59,661
Direct debt 10-year amortization (%)	89	86	--	-
Pension and OPEB cost % of revenues	--	5.0	5.0	5.0
NPLs per capita (\$)	--	83	83	306
Combined NPLs (\$000s)	--	1,469	1,469	5,133

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US\$4.800 mil GO prom nts ser 2025A due 06/01/2035	
Long Term Rating	AA-/Stable
Ratings Affirmed	
Local Government	
Kaukauna, WI Appropriation Contract	A+/Stable
Kaukauna, WI Lease Appropriation	A+/Stable
Kaukauna, WI Unlimited Tax General Obligation	AA-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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