



# MEMO

## Finance

To: Common Council

From: Finance Director, Van Rossum

Date: 06/18/2024

Re: 2024A and 2024B General Obligation Bonding Results and Ratings

### Background information:

The recent rating assigned by S&P Global Ratings to the City of Kaukauna's General Obligation Promissory Notes, Series 2024A is consistent with past years.

As per the letter dated June 7, 2024, from S&P Global Ratings, our city's General Obligation Promissory Notes, Series 2024A, have been assigned a rating of "AA-". The outlook for this rating is viewed as stable by S&P Global Ratings.

This rating is based on the financial and other relevant information provided to S&P Global Ratings from the Finance Department. Decision made through the year influence how this rating will turn out. Things like maintaining policy and a fund balance all contributes to the high rating and stable outlook.

This rating dictates the marketability and borrowing rate at which the city can sell the bonds. By maintaining a high rating, the City is afforded inexpensive borrowing to continue to make improvements to the City's infrastructure and equipment.

We are pleased with this rating as it reflects the financial stability of our city. We will continue to work towards maintaining and improving this rating in the future.

Jeff Belongia from Huntington will go over more detail on this rating and the two sales that will have a resolution for these sales under Section 9 **Resolution and ordinances**.

### Staff Recommended Action:

Receive and place on file the S&P Global Ratings

# RatingsDirect®

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## Summary:

# Kaukauna, Wisconsin; Appropriations; General Obligation

### Primary Credit Analyst:

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Credit Highlights

Outlook

Related Research

Summary:

# Kaukauna, Wisconsin; Appropriations; General Obligation

Credit Profile		
US\$7.87 mil note antic nts ser 2024B due 06/01/2029		
Long Term Rating	A+/Stable	New
US\$5.475 mil GO prom nts ser 2024A due 06/01/2035		
Long Term Rating	AA-/Stable	New
Kaukauna GO		
Long Term Rating	AA-/Stable	Affirmed
<b>Kaukauna Redevelopment Authority, Wisconsin</b>		
Kaukauna, Wisconsin		
Kaukauna Redev Auth (Kaukauna) APPROP		
Long Term Rating	A+/Stable	Affirmed

## 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
<b>Strong economy</b>				
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			
<b>Adequate budgetary performance</b>				
Operating fund result % of expenditures		-3.4	-1.9	1.1
Total governmental fund result % of expenditures		-5.8	5.0	0.2
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		25.1	33.4	36.0
Total available reserves (\$000)		3,871	4,846	5,170
<b>Very strong liquidity</b>				
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
<b>Adequate management</b>				
Financial Management Assessment	Standard			
<b>Weak debt and long-term liabilities</b>				
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.)**

	<u>Most recent</u>	<u>Historical information</u>		
		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
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Kaukauna taxable note antic nts ser 2023C dtd 08/01/2023 due 06/01/2026

<i>Long Term Rating</i>	A+/Stable	Affirmed
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Kaukauna GO (BAM)

<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
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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](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers 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.spglobal.com/ratings](http://www.spglobal.com/ratings).

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June 7, 2024

City of Kaukauna  
201 West Second Street  
PO Box 890  
Kaukauna, WI 54130  
Attention: William Van Rossum, Finance Director

Re: **US\$5,475,000 City of Kaukauna, Wisconsin, General Obligation Promissory Notes, Series 2024A, dated:  
Date of delivery, due: June 01, 2035**

Dear William Van Rossum

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AA-". S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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Sincerely yours,

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cc: **Debra Opgenorth**  
**Jeffery Belongia**



June 7, 2024

City of Kaukauna  
201 West Second Street  
PO Box 890  
Kaukauna, WI 54130  
Attention: William Van Rossum, Finance Director

Re: *US\$7,870,000 City of Kaukauna, Wisconsin, Note Anticipation Notes, Series 2024B, dated: Date of delivery, due: June 01, 2029*

Dear William Van Rossum

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "A+" . S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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