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Ratings

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Summary:

Oelwein, Iowa; General Obligation

Primary Credit Analyst:
Andrew J Truckenmiller, Chicago + 1 (312) 233 7032; andrew.truckenmiller@spglobal.com

Secondary Contact:
Blake E Yocom, Chicago (1) 312-233-7056; blake.yocom@spglobal.com

Table Of Contents

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Credit Profile		
US$2.385 mil GO corp purp bnds ser 2020 due 06/01/2032		
Long Term Rating	A/Stable	New
Oelwein GO corp purp bnds		
Long Term Rating	A/Stable	Affirmed
Oelwein GO COPs (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'A' long-term rating and stable outlook to Oelwein, Iowa's series 2020 general obligation (GO) corporate-purpose bonds and affirmed its 'A' long-term rating, with a stable outlook, on the city's existing GO debt.

S&P Global Ratings also affirmed its 'A' underlying rating (SPUR), with a stable outlook, on the city's GO certificates of participation.

Security and the use of proceeds

The city's unlimited-ad valorem-tax GO pledge secures the bonds.

Officials intend to use series 2020 bond proceeds to finance various general corporate-purpose capital-improvement projects.

Credit overview

Oelwein is a small community in northeast Iowa. Its residents have direct access to employers in the city, and they can commute into Waterloo to access additional job opportunities. Oelwein has had relatively balanced operations historically. Its cash-based reserves and liquidity are, in our view, very strong; we expect this will persist during the two-year outlook. While the city has elevated debt, it pays a portion with enterprise-fund transfers.

The rating reflects our opinion of the city's:

- Very weak economy, with market value per capita of $52,569 and projected per capita effective buying income at 75.3% of the national level;
- Adequate financial management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental-fund level in fiscal 2019;
- Strong budgetary flexibility, with available cash-based reserves in fiscal 2019 at 29% of operating expenditures;

- Very strong liquidity, with total government available cash at 66.9% of total governmental-fund expenditures and 3.8x governmental debt service, and access to external liquidity we consider strong;
- Weak debt-and-contingent-liability position, with debt service carrying charges at 17.5% of expenditures and net direct debt that is 179% of total governmental-fund revenue, but rapid amortization, with 89.7% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Very weak economy

We consider Oelwein's economy very weak. The city, with an estimated population of 6,030, is in Fayette County. The city has a projected per capita effective buying income at 75.3% of the national level and per capita market value of $52,569. Overall, market value has grown by 16.1% during the past year to $317 million in fiscal 2020. County unemployment was 3% in 2018.

Oelwein is roughly 40 miles from Waterloo and Cedar Falls, providing residents with direct access to more-diverse employment opportunities, including education, health care, and manufacturing. Although residents commute into Waterloo and Cedar Falls for additional employment, the city is not part of a broader, more-diverse metropolitan area. The largely agricultural property tax base has fared well recently.

Adequate management

We view the city's financial management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Elements include management's:

- Realistic, well-grounded assumptions when setting the annual budget;
- Monthly budget-to-actual reports to the city board;
- Lack of robust financial projections;
- Maintenance of a five-year capital plan it updates annually and uses to determine capital projects;
- Adherence to state guidelines regarding investments with monthly reports to the board;
- Lack of a debt-management policy; and
- Informal fund-balance policy of maintaining general fund reserves at 20% of expenditures, a level it is complying with currently.

Strong budgetary performance

Oelwein's budgetary performance is strong, in our opinion. The city had operating surpluses at 3.5% of expenditures in the general fund and 7.7% across all governmental funds in fiscal 2019.

We adjusted audited data to account for recurring transfers into the general fund from the enterprise funds and bond proceed spending. Audited fiscal 2019 results show a small $77,000, or 3.5% of expenditures, surplus. Total governmental-fund results remained positive. The city typically budgets conservatively, and revenue typically comes in stronger while holding expenses steady. Property taxes generate 66% of general fund revenue, which we view as a stable revenue source.

Oelwein has a status quo budget for fiscal 2020, and it does not currently expect any major variations. Due to the city consistently outperforming the budget and expectations for fiscal 2020, we think budgetary performance will likely remain stable.

Strong budgetary flexibility

Oelwein's budgetary flexibility is strong, in our view, with available cash-based reserves in fiscal 2019 at 29% of operating expenditures, or $639,000. In our view, Oelwein's use of cash-based accounting, which reduces the clarity about the amount of funds truly available, negatively affects budgetary flexibility.

Available reserves moderately increased recently to $639,000 in fiscal 2019 from $498,000 in fiscal 2017. We expect reserves will likely remain, what we consider, strong during the two-year outlook; if reserves were to decrease below $500,000 for any reason, however, we could lower the rating. We note the city has restricted fund balance to $819,000 for employee benefits and $609,000 for street purposes; we think this provides additional budgetary flexibility due to the city's primary functions.

Very strong liquidity

In our opinion, Oelwein's liquidity is very strong, with total government available cash at 66.9% of total governmental-fund expenditures and 3.8x governmental debt service in fiscal 2019. In our view, the city has strong access to external liquidity if necessary.

Oelwein's history of issuing debt during the past 20 years supports our view of its strong access to external liquidity, if necessary. Due to the amount of cash on hand, we do not expect to change our liquidity assessment during the two-year outlook. The city does not have any alternative financing that could pose liquidity issues.

Weak debt-and-contingent-liability profile

In our view, Oelwein's debt-and-contingent-liability profile is weak. Total governmental-fund debt service is 17.5% of total governmental-fund expenditures, and net direct debt is 179% of total governmental-fund revenue. About 89.7% of direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city has $12.5 million of net direct debt outstanding following this new issuance. Net direct debt figures in our analysis exclude $5.7 million of enterprise-funds-supported bonds. We recognize management does not currently have any additional GO debt plans.

Oelwein's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 4.8% of total governmental-fund expenditures in fiscal 2019: 4.8% represented required contributions to pension obligations. The city made its full annual required pension contribution in fiscal 2019.

Pension and OPEB highlights include:

- We do not expect Oelwein will likely face credit pressure from pension benefits.
- The adequately funded Iowa Public Employees' Retirement System (IPERS) uses reasonable assumptions.
- A single-employer plan covers retiree health-care benefits, and we do not view this as a credit pressure.

Oelwein participates in IPERS and Iowa Municipal Fire & Police Retirement System (IMFPRS). Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, Oelwein's proportionate share of IPERS' net pension liability, as of 2018, was $1.2 million and IMFPRS' share was $1.25 million. IPERS maintained 83.6% funding, using the plan's fiduciary net position as a percent of total pension liability, and IMFPRS maintained 81% funding.

Oelwein's IPERS contributions for the past three fiscal years equaled its actuarially determined contributions, which fell short of static funding and minimum-funding progress in fiscal 2019, indicating it did not make any funding progress and liabilities increased.

In general, we expect slower full-funding progress due to level-percent amortization using payroll-growth assumptions of 3.25% during a closed 28-year period. Furthermore, we think IPERS' 7% discount rate could lead to contribution volatility. IMFPRS has a similar pension-funding discipline and approach, and we expect costs will likely increase over time.

Oelwein operates and finances a single-employer, medical retiree-benefit plan on a pay-as-you-go basis. Retirees pay 100% of full active-employee premiums if they elect to remain on the plan; this implicit subsidy resulted in a $728,462 liability for the city.

Strong institutional framework

The institutional framework score for Iowa cities with a population greater than 2,000 is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion Oelwein will likely maintain, at least, adequate operating performance and very strong reserves and liquidity. Therefore, we do not expect to change the rating during the two-year outlook.

Upside scenario

With all other credit factors remaining equal, we could raise the rating if the employment base were to diversify and economic metrics were to improve to levels we consider commensurate with higher-rated peers, coupled with a material improvement in available general fund reserves away from a level we consider nominally low.

Downside scenario

We could lower the rating if debt were to create sustained budgetary pressure, leading to reserves decreasing to levels we consider nominally low, or economic indicators were to weaken.

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
- 2019 Update Of Institutional Framework For U.S. Local Governments