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Summary:

Kronenwetter Village, Wisconsin; Appropriations; General Obligation

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Credit Profile

US\$5.485 mil GO rfdg bnds ser 2021A due 04/01/2034

Long Term Rating

AA-/Stable

New

US\$1.98 mil taxable GO rfdg bnds ser 2021B due 06/01/2030

Long Term Rating

AA-/Stable

New

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to the village of Kronenwetter, Wis.' anticipated \$5.5 million series 2021A general obligation (GO) refunding bonds and \$2.0 million series 2021B taxable GO refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA-' rating on the village's existing GO debt and its 'A+' rating on the Kronenwetter Village Redevelopment Authority's (RDA) series 2016 lease revenue refunding bonds. The outlook is stable.

The series 2021A and 2021B GO bonds are secured by the village's unlimited-tax GO ad valorem pledge. The series 2021A bonds are being issued to refund the 2009 GO bonds for interest cost savings and restructure portions of the 2012D GO refunding bonds and the 2016 GO promissory notes to create a more level repayment schedule. The series 2021B bonds are being issued to restructure portions of bullet payments coming due on the village's 2012A and 2013B taxable GO promissory notes for a more level repayment schedule.

The long-term rating on the RDA 2016 lease revenue bonds reflects our view of Kronenwetter's appropriation pledge, which secures the bonds. We rate the lease revenue bonds based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Jan. 22, 2018). The obligation to pay lease rental payments is conditional on the village's use of the leased property and village annual appropriations. The rating is one notch lower than the long-term rating on the village to reflect the appropriation risk.

Credit overview

Kronenwetter's tax base has increased over the past few years. We believe the tax base will continue to expand in the near-to-medium term, given the population and economic stability seen in Marathon County and the surrounding area. The tax base growth has lifted the village's market value per capita metric to a level that improves our overall economic profile assessment. However, economic metrics remain below average relative to those of higher-rated peers. Kronenwetter's revenue has not materially declined due to the effects of the pandemic, in part due to stable funding from the state, which has not been affected to date and we believe will remain stable in the near term. This refunding, along with excess cash accumulated in recent years, is being done to help reduce the village's relatively high debt burden. Given our view that the nascent recovery from the pandemic-related recession will be gradual, we will continue to monitor the village's economy, debt profile, and finances closely.

The 'AA-' rating further reflects our view of the village's:

- Adequate economy, with market value per capita of \$87,895 and projected per capita effective buying income at 99.9% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2019, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 71% of operating expenditures;
- Very strong liquidity, with total government available cash at 99.7% of total governmental fund expenditures and 2.3x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 26.8% of expenditures and net direct debt that is 191.1% of total governmental fund revenue, but rapid amortization, with 90.4% of debt scheduled to be retired in 10 years; and
- Adequate institutional framework score.

Environmental, social and governance factors (ESG)

The rating also incorporates our view of the health and safety risks posed by the COVID-19 pandemic, which we consider social risk factors. Although the scope of economic and financial challenges posed by the pandemic remains unknown, we believe a prolonged disruption could weaken the village's economy. Absent the implications of the pandemic, we consider the village's ESG risks as being in line with our view of the sector.

Stable Outlook

Downside scenario

A lower rating is possible should Kronenwetter issue additional new debt that raises debt service as a percentage of expenditures, weakening the debt profile, or if budgetary performance weakens, leading to decreased reserves or liquidity.

Upside scenario

We could raise the rating should the village's economy improves, raising the key economic metrics to levels commensurate with that of higher-rated peers, while all other credit factors remain stable.

Credit Opinion

Adequate economy

We consider Kronenwetter's economy adequate. The village, with an estimated population of 7,865, is in Marathon County. It has projected per capita effective buying income (EBI) of 99.9% of the national level and per capita market value of \$87,895. The village's market value was \$691.3 million in 2020. Because of the modest tax base growth in recent years, we have revised our assessment of the local economy to adequate from weak. Projected per capita EBI

has been stable and population growth has been modest.

Kronenwetter Village is a primarily residential community with residential properties constituting more than 78% of 2020 assessed value (AV). Management reports most of the growth in recent years has stemmed from residential developments and the village has a few commercial developments that will be complete over the next two years. This should support further AV growth in the near term.

Primarily, residents commute to Wausau, the county seat, approximately 18 miles north, or to Stevens Point, 26 miles south. Although Kronenwetter is not part of a broad and diverse metropolitan area, we believe it is well integrated into the surrounding communities that provide job opportunities not found in the village.

The county unemployment rate was 2.9% in 2019. In April 2020, because of the economic shutdown it spiked to 11.5% but recovered to 4.6% as per preliminary August 2020 figures. We understand the pandemic and the ensuing economic effects have had minor impacts on local businesses. Overall, we believe the local economy will remain stable in the near term.

Strong management

We view the village's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The village uses five years of trend data when developing budgetary assumptions. The annual budget is developed by line-item, in consultation with department heads. Reporting on budget-to-actual performance is conducted monthly; the report also contains a synopsis of the village's investment holdings. Kronenwetter formally adopted the state statute limiting investments as its investment policy. Management regularly makes minor year-end budget amendments to reconcile line-items, but could undertake larger midyear amendments should the need arise. Every few years, management prepares a financial management plan that contains detailed five-year revenue and expenditure projections, capital plans, and scenario analyses. The annual budget also contains multiyear expenditure forecasts. The village does not have a formal debt management policy, but it does have a formal minimum general fund policy of 15% of expenditures with an informal policy to keep reserves between 20% to 25% of expenditures.

Adequate budgetary performance

Kronenwetter's budgetary performance is adequate in our opinion. The village had operating surpluses of 15% of expenditures in the general fund and of 3.4% across all governmental funds in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2019 results in the near term.

For analytical consistency, we adjusted budgetary performance to account for recurring transfers between the general fund and other governmental funds, as well as for transfers into governmental funds from the village's enterprise funds. For fiscal 2019, we adjusted for debt refinancing and capital projects funded by aid provided by the state and county in fiscal 2020.

In the past three years, the village has had consistent general fund surpluses. The village's largest revenue sources include state aid (50% of 2019 general fund revenue) and local taxes (31%). Both of these revenue sources have been and are projected to remain stable throughout the coronavirus pandemic. The surpluses have primarily been fueled by

developments and permit fees. In fiscal 2019, this trend continued and the village reduced expenditures from budgeted roadway projects that were deferred. Management is considering borrowing funds to address those projects and various other infrastructure projects in the next two to three years.

Management projects fiscal 2020 ended with a surplus similar to those reported in fiscal years 2017 and 2018. The pandemic and its economic fallout created slight revenue shortfalls for the village, but these were offset by fewer expenditures. In addition, all personal protective equipment and sanitation supplies purchased as a result of the pandemic were covered by federal grant funding.

In fiscal 2021, Kronenwetter will make an approximately \$600,000 transfer to its debt obligations from its available reserves to pay a portion of the larger principal balance that is due. Aside from that, management expects the current budgetary performance trend to continue. Overall, we believe that operating surpluses will continue, although they will be lower than 2019's, and budgetary performance will be at least adequate when accounting for uncertainty caused by the pandemic.

Very strong budgetary flexibility

Kronenwetter's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 71% of operating expenditures, or \$2.7 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

We believe the village's available reserves provide rating stability, given the maintenance of reserves above 30% over the two most recent fiscal years. The excess reserves generated during fiscal 2019 will be used to pay a portion of debt due in fiscal 2021 through an interfund loan. We expect the village's budgetary flexibility will remain very strong.

Very strong liquidity

In our opinion, Kronenwetter's liquidity is very strong, with total government available cash at 99.7% of total governmental fund expenditures and 2.3x governmental debt service in 2019. In our view, the village has strong access to external liquidity if necessary.

The village had \$6.3 million in available cash and investments at Dec. 31, 2019. Cash and investments declined about \$2.5 million from the previous audit. Management expects liquidity will be restored to previous levels, as projects financed in 2019 were reimbursed with grant proceeds in 2020. The village does not have any direct placements or contingent liabilities. It has regularly issued debt and we believe it maintains strong access to external liquidity. We do not expect to revise our view of the village's liquidity profile over the near term.

Weak debt and contingent liability profile

In our view, Kronenwetter's debt and contingent liability profile is weak. Total governmental fund debt service is 26.8% of total governmental fund expenditures, and net direct debt is 191.1% of total governmental fund revenue. Approximately 90.4% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Following these refundings being made with the bond proceeds, the village will have approximately \$14.0 million in debt outstanding, including capital leases. The refunding will result in a smoother repayment schedule with a principal repayment of \$3.5 million in 2022. In 2023, the principal repayment decreases to approximately \$1.2 million, with

similar principal payments scheduled for the next five years. To finance projects in the next two to three years, the village is considering issuing debt of approximately \$1.5 million. We do not expect any material change to the debt profile in the near term.

Kronenwetter's pension contributions totaled 1.8% of total governmental fund expenditures in 2019. The village made its full annual required pension contribution in 2019.

Pension and other postemployment benefits liabilities

The village's pension costs are modest as a share of total spending, and they are not likely to accelerate significantly during the next few fiscal years, especially due to the pension plan's strong funding.

Kronenwetter participates in Wisconsin Retirement System (WRS), a multiple-employer, defined-benefit pension plan, which was 103% funded at Dec. 31, 2019, with a proportionate share of the plan's net pension asset of \$332,000. WRS has routinely been among the nation's best-funded multiple-employer pension plans.

WRS' investment rate of return assumption decreased to 7% from 7.2% in late 2018. Although the revised return assumption exceeds our 6% guideline, WRS employs a shared-risk model where active employee contribution changes and benefit payment adjustments offset investment performance fluctuations, mitigating market volatility exposure.

Because of these features, we expect contributions will likely remain relatively stable. Due to WRS' strong funding and contribution practices, we also expect they will likely remain affordable.

Adequate institutional framework

The institutional framework score for Wisconsin cities and villages with a population less than 25,000 is adequate.

Related Research

- Staying Home For The Holidays, Dec. 2, 2020
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 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
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of January 5, 2021)		
Kronenwetter GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Kronenwetter Vill GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Kronenwetter Vill Redev Auth, Wisconsin		
Kronenwetter Vill, Wisconsin		
Kronenwetter Vill Redev Auth redev lse rev rfdg bnds (tax incremental dist no.1) (Kronenwetter Vill)		
<i>Long Term Rating</i>	A+ /Stable	Affirmed

Many issues are enhanced by bond insurance.

Summary: Kronenwetter Village, Wisconsin; Appropriations; General Obligation

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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