

# RatingsDirect®

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## Summary:

# Waupaca City, Wisconsin; General Obligation

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### Credit Profile

US\$1.305 mil GO prom nts ser 2023 dtd 04/11/2023 due 03/01/2033

*Long Term Rating* A+/Stable New

Waupaca City GO prom notes

*Long Term Rating* A+/Stable Affirmed

Waupaca City GO (AGM)

*Unenhanced Rating* A+(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

### Credit Highlights

- S&P Global Ratings assigned its 'A+' long-term rating to Waupaca, Wis.' \$1.3 million series 2023 general obligation (GO) promissory notes.
- At the same time, we affirmed our 'A+' rating on the district's GO bonds outstanding.
- The outlook is stable.

### Security

The city's full-faith-and-credit pledge and unlimited taxing power secure the GO notes. Proceeds will be used for the city's annual capital improvement plan.

### Credit overview

Waupaca generated mostly balanced operations over the past three years, while maintaining an average of \$2 million in available reserves. Somewhat offsetting the city's consistency in financial performance, are its high debt service costs and weak economy.

Budgeted fiscal 2023 is structured with a slight deficit and incorporates wage increases of about 3% for all city employees and an extension of the police union contract through 2024, which management believes will add predictability to salary expenses. Preliminary estimates show a \$279,000 surplus (4% of general fund budget) in fiscal 2022 fueled by permitting revenue growth, despite one-time payouts for several retirees. With surplus funds in 2022, officials anticipate adding to the general fund balance and they currently do not plan to draw down on reserves. S&P Global Ratings adjusts for the effects of annual transfers in to and out of the general fund, including an annual transfer out of \$1 million to the debt service fund, which management reports was incorporated within its expenditure estimates for fiscal 2022 and budgeted 2023.

In our view, Waupaca's economy remains weak, with a heavy manufacturing presence. The current stability of the city's leading employer, Waupaca Foundry, an iron manufacturer of automotive parts and farm equipment and its leading employer, which expanded recently, has somewhat mitigated previous tax base concentration. Market value is

growing, which officials attribute to new residential development and expect it will continue with a planned 96-unit complex to accommodate temporary workers of the Waupaca Foundry.

The rating reflects our view of the city's:

- Limited economy, with reliance on one major employer accounting for 26% of employment, average wealth levels, and recent gains in equalized values increasing 13% from the previous year;
- Consistent budgetary performance benefiting from predictable revenue structure of primarily property tax (57%) and intergovernmental aid (26%), along with very strong liquidity and reserves. The city also has an undrawn \$500,000 line of credit, that is renewed annually, but that it has not needed to use since 2019;
- Good Financial Management Assessment, including a comprehensive five year capital plan, a formal fund balance policy of 12%-25% of general fund expenditures to avoid cash flow borrowing, with which the city is in compliance with, and long-term financial projections. The institutional framework score is strong;
- Very weak debt and liability profile, with qualitatively very high debt service carrying charges. In conjunction with this issuance, the city will issue \$3.7 million in Note Anticipation Notes and has plans to issue \$1.1 million in sewer revenue bonds sometime this year. We do not anticipate this additional debt will affect the debt profile, given the amount of debt it will retire on annual basis is greater than planned issuances; and
- Low pension and other postemployment benefits (OPEB) costs. Waupaca, participates in the Wisconsin Retirement System (106% funded as of Dec. 31, 2021), with net asset of \$2 million. In addition, the city participates in the Local Retiree Life Insurance Fund (LRLIF), a cost-sharing multiple employer plan: 0% funded with, a liability of \$318,525 (as of Dec. 31, 2021)

### **Environmental, social and governance**

We reviewed the district's environmental, social, and governance (ESG) risks and view them as neutral in our credit rating analysis. For our latest ESG report card for the Midwest region, see "ESG U.S. Public Finance Report Card: Midwest And Central Region Governments And Not-For-Profit Enterprises," published July 13, 2022, on RatingsDirect.

### **Outlook**

The stable outlook reflects our expectation the city will continue to maintain its budgetary flexibility and reserves in line with current levels, keeping pace with its fixed costs such as wages and debt service.

### **Downside scenario**

We could lower the rating if fiscal pressure leads to significantly decreased reserves, or if debt increases substantially.

### **Upside scenario**

We could raise the rating if per capita market value and income strengthen, and workforce employment concentration remains diverse.

Waupaca, Wisconsin -- Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
<b>Weak economy</b>				
Projected per capita EBI % of U.S.	82.8			
Market value per capita (\$)	89,708			
Population		5,980	6,014	6,111
County unemployment rate(%)		3.5		
Market value (\$000)	536,455	475,265	466,715	
Ten largest taxpayers % of taxable value	14.5			
<b>Adequate budgetary performance</b>				
Operating fund result % of expenditures		(1.1)	0.9	3.3
Total governmental fund result % of expenditures		6.6	(12.4)	14.9
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		30.4	32.3	31.1
Total available reserves (\$000)		2,013	2,074	2,030
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		121.9	119.0	101.0
Total government cash % of governmental fund debt service		515.8	299.2	459.6
<b>Strong management</b>				
Financial Management Assessment	Good			
<b>Very weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		23.6	21.6	22.0
Net direct debt % of governmental fund revenue	213.9			
Overall net debt % of market value	4.4			
Direct debt 10-year amortization (%)	59.8			
Required pension contribution % of governmental fund expenditures		3.3		
OPEB actual contribution % of governmental fund expenditures		0.0		
<b>Strong institutional framework</b>				
<b>EBI--Effective buying income. OPEB--Other postemployment benefits.</b>				

Data points and ratios may reflect analytical adjustments.

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments

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