

RatingsDirect®

Summary:

Neenah, Wisconsin; Appropriations; General Obligation

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Credit Profile

US\$16.23 mil GO prom notes ser 2022A dtd 03/01/2022 due 03/01/2032		
<i>Long Term Rating</i>	AA/Stable	New
US\$10.17 mil taxable GO rfdg bnds ser 2022B dtd 03/01/2022 due 09/01/2028		
<i>Long Term Rating</i>	AA/Stable	New
Neenah GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Neenah GO prom notes dtd 03/03/2021 due 03/01/2031		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Neenah Comnty Dev Auth, Wisconsin		
Neenah, Wisconsin		
Neenah Comnty Dev Auth (Neenah) comnty dev lse rev rfdg bnds (Neenah) ser 2016 due 12/01/2032		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to the City of Neenah, Wis.' anticipated \$16.23 million series 2022A general obligation (GO) promissory notes and \$10.17 million series 2022B taxable GO refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the city's existing GO debt and its 'AA-' long-term rating on the Neenah Community Development Authority's existing lease revenue refunding bonds, issued for the city. The outlook is stable.

Neenah's full-faith-and-credit unlimited-tax GO pledge secures the notes and bonds. Series 2022A note proceeds will be used to pay costs associated with projects included in the city's 2022 capital improvement program and to current-refund a portion of series 2012 GO community development bonds for interest-cost savings. Series 2022B bond proceeds will advance-refund a portion of series 2013 community development lease revenue refunding bonds for interest-cost savings.

The city's lease revenue refunding bonds are secured by annual appropriation pursuant to revenues and income received by the authority under the lease. We rate these obligations one notch lower than the city's general creditworthiness to account for appropriation risk.

Credit overview

In our view, Neenah's experienced and conservative management team has helped the city routinely outperform budget expectations, resulting in maintenance of consistently very strong reserves. The city's revenue composition relies predominantly on property taxes and has resulted in minimal budgetary pressures from the COVID-19 pandemic

and recent recession. Based on unaudited fiscal 2021 results, the city expects to report a modest general fund deficit of \$400,000 (1.4% of expenditures), in part due to a planned draw after several years of surpluses as well as conservative revenue assumptions. Despite this projected deficit, we expect the city will maintain very strong reserves in 2021 and 2022. Offsetting these strengths is Neenah's high overall net debt, although the city's debt is amortized very quickly.

The rating further reflects our view of Neenah's:

- Adequate economy, with a steady manufacturing base that has led to growing market valuations and what we consider good incomes;
- Stable revenue composition and conservative budget assumptions that have historically contributed to outperformance of budget expectations, supporting very strong reserves and liquidity;
- Good financial policies and practices under our Financial Management Assessment (FMA) methodology, and a strong institutional framework; and
- Weak debt and contingent liability profile, with a high overall net debt burden, offset by very rapid principal amortization and a fully funded pension.

Environmental, social, and governance

The rating incorporates our view of Neenah's environmental, social, and governance (ESG) risks relative to the city's economy, management, financial measures, and debt and liability profile. Given Neenah's location on Lake Winnebago, the city could be exposed to inland flooding, although no major flood events have occurred in recent years. Furthermore, the Fox River and Lake Winnebago are dam-controlled, therefore mitigating flood risks. Overall, we view Neenah's ESG risks as in line with the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the city's budgetary performance declines beyond expectations, leading to weakened budgetary flexibility.

Upside scenario

We could raise the rating if local economic indicators show sustained improvement to levels commensurate with those of higher-rated peers, coupled with improvement in the city's debt profile.

Credit Opinion

Manufacturing-focused economy, with very strong and growing market values

Neenah is on the north shore of Lake Winnebago in the Oshkosh-Neenah metropolitan statistical area (MSA). In recent years, the city's tax base has grown steadily, increasing 22% since 2017 to \$2.5 billion in 2021, with value appreciation of existing properties and ongoing development. Officials expect this positive valuation trend will continue based on a competitive housing market and plans for several large apartment complexes and a mixed-use commercial/residential complex in the downtown area.

The local economy has a healthy amount of industry, including one of the largest paper manufacturers in the world, Kimberly-Clark Corp. (2,475 employees). In 2018, Kimberly-Clark announced a worldwide reduction in production and staffing, including the closing of the Neenah nonwoven mill facility. More recently, the company announced plans to move 250 corporate jobs from the nearby Village of Fox Crossing to a new Chicago location in 2022. However, the company's nearby Cold Spring Road location has retained nearly all plant jobs and is investing \$200 million in this location after the company signed a tax incentive deal with the state in December 2018. Kimberly-Clark's assessed value is less than 1% of Neenah's total assessed value.

Management reports no major layoffs or closures among large area employers stemming from the COVID-19 pandemic; however, social distancing and other effects of the pandemic and recent recession caused elevated rates of unemployment in 2020. Winnebago County's unemployment rate peaked at 13.2% in May before falling to 3.6% in November, lower than the statewide rate of 5.0%. The county unemployment rate was most recently 2.0% in October 2021.

For S&P Global Economics' latest U.S. forecast, see "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," published Nov. 29, 2021, on RatingsDirect.

Strong management, with a good financial practices and policies

Highlights to the city's FMA include:

- In preparing its annual budgets, management references historical data over the previous two-to-three years.
- Management provides quarterly budget-to-actual reports to the council, and the council has the ability to amend the budget as needed.
- While the city does not have a formal long-term financial plan, it does maintain a formal long-term capital plan, which is updated annually and extends five years.
- The city maintains its own investment policy and provides the council quarterly reports on investments earnings.
- Neenah has an informal debt target to issue no more debt than is to be retired during the current fiscal year.
- The city also maintains an informal fund balance target of at least 12%-18% of expenditures in its unassigned general fund reserves, which it currently meets.
- We also note that Neenah is taking steps to mitigate its exposure to cybersecurity risks and maintains cyber insurance.

Budgetary flexibility and liquidity are expected to remain very strong despite modest budget deficits

After three years of modest operating surpluses, management conservatively projects a \$400,000 (1.5%) general fund deficit for a fiscal 2021 year-end result. Approximately \$250,000 of this deficit is a planned drawdown to maintain compliance with the city's informal 18% maximum fund balance target. The remaining \$150,000 deficit is based on management's conservative revenue assumptions for interest earnings and interfund transfers due to pandemic-induced revenue shortfalls.

The fiscal 2022 budget shows a modest \$100,000 (0.4%) general fund deficit and reflects status quo operations. The city received a total allocation of \$5.6 million under the American Rescue Plan Act (ARPA). Beginning in fiscal 2022,

the city plans to use \$1.3 million of ARPA funds annually as revenue replacement in lieu of a portion of the recurring transfers into the general fund from nonmajor governmental funds.

Neenah's general fund benefits from a revenue structure that has historically been stable and predictable, consisting mostly of property taxes (63.4%), followed by intergovernmental sources (20.2%). Based on the stability of its key revenues and considering the city's history of outperforming budget, we expect Neenah's budgetary performance will remain adequate to strong.

Despite management's expectations for modest operating deficits, we anticipate budgetary flexibility will remain very strong and over upcoming years. In fiscal 2020, the city reported total available reserves of \$5.3 million (21.4%). Although not included in the available fund balance, Neenah's benefit accrual fund held \$5.2 million in cash and investments in fiscal 2020. While these funds are earmarked for all employees eligible to retire under the Wisconsin Retirement System (WRS) for the payout of accrued sick leave and vacation, and health insurance reserves, officials indicate those funds could be used for general operations if necessary.

Neenah had more than \$36 million in cash and investments considered liquid at fiscal 2020 year-end. In 2020, the city placed a \$1.865 million taxable GO promissory note directly with a lender to finance capital improvements. We view the terms of this agreement standard, with no unusual events of default or acceleration provisions. Overall, we expect the city's liquidity position will remain very strong.

High debt burden, with substantial medium-term debt plans, offset by very rapid amortization

Management indicates the city could issue up to \$30 million of new debt over the next two years to fund projects included in its capital improvement plan. While this planned issuance is larger than the city's typical issuance due to planned construction of a parking garage, we do not expect it will result in material declines to Neenah's debt profile due to the city's very rapid debt amortization, with 96% of its total direct debt scheduled to mature within the next 10 years.

Pension costs are expected to remain affordable given strong pension funding status

Neenah's pension costs are modest as a share of total spending and are not likely to accelerate over upcoming years due to the plan's strong funding. The WRS, a multiple-employer, defined-benefit pension plan in which the city participates, has routinely been among the best-funded multiple-employer pension plans in the country. The city offers no other postemployment benefits.

As of Dec. 31, 2021, WRS was 105% funded, with an estimated city proportionate share of the plan's net pension asset of \$8.1 million.

WRS contributions are actuarially determined, and the city funds 100% of the required contribution annually. The system's investment-rate-of-return assumption decreased to 7.0% in late 2018 from 7.2%. Although the revised return assumption exceeds our 6.0% guideline, WRS employs a shared-risk model, mitigating market-volatility exposure. With this model, changes in active-employee contributions and benefit-payment adjustments offset investment-performance fluctuations. Because of these features, we expect contributions will likely remain relatively stable. Because of WRS' strong funding and contribution practices, we expect contributions will likely remain affordable.

Strong institutional framework

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

Neenah, Wis.--Key Credit Metrics

	Most recent	Historical information		
		2020	2019	2018
Adequate economy				
Projected per capita EBI % of U.S.	97			
Market value per capita (\$)	95,280			
Population (no.)		26,733	26,601	26,607
County unemployment rate(%)		5.4		
Market value (\$000)	2,547,115	2,374,160	2,209,662	2,095,285
Ten largest taxpayers % of taxable value	8.7			
Adequate budgetary performance				
Operating fund result % of expenditures		1.2	1.2	0.2
Total governmental fund result % of expenditures		3.1	7.1	0.4
Very strong budgetary flexibility				
Available reserves % of operating expenditures		21.4	19.8	18.7
Total available reserves (\$000)		5,348	4,939	4,558
Very strong liquidity				
Total government cash % of governmental fund expenditures		106	92	66
Total government cash % of governmental fund debt service		360	384	270
Strong management				
Financial Management Assessment	Good			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		29.5	24.1	24.6
Net direct debt % of governmental fund revenue	306			
Overall net debt % of market value	5.1			
Direct debt 10-year amortization (%)	96			
Required pension contribution % of governmental fund expenditures		4.4		
OPEB actual contribution % of governmental fund expenditures		0.1		

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 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

- 2021 Update Of Institutional Framework For U.S. Local Governments

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