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Ratings

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Summary:

Fond du Lac County, Wisconsin Bug Tussel 1 LLC; General Obligation

Primary Credit Analyst:
David H Smith, Chicago + 1 (312) 233 7029; david.smith@spglobal.com

Secondary Contact:
Emma Drilias, Chicago (1) 312-233-7132; emma.drilias@spglobal.com

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Credit Profile		
US$92.9 mil rev bnds (Bug Tussel 1, LLC) ser 2022 dtd 08/18/2022 due 11/01/2051		
Long Term Rating	A+/Stable	New

Rating Action Overview

- S&P Global Ratings assigned its 'A+' long-term rating to Fond du Lac County, Wis.' $92.9 million series 2022A taxable revenue bonds (Bug Tussel 1 LLC Project), based on the creditworthiness of Taylor County, the lowest-rated participating county in the transaction.
- The outlook is stable.

Security

The bonds are limited obligations of Fond du Lac County (the issuer) and are payable solely by a trustee from revenues received by Bug Tussel 1 LLC (the borrower), a Wisconsin limited liability company. Pursuant to a loan agreement, Fond du Lac County will lend series 2022A bond proceeds to Bug Tussel 1 for the purposes of:

- Financing the acquisition, construction, installation, and equipping of various telecommunications infrastructure in the Wisconsin counties of Green Lake, Iowa, Jefferson, Oconto, Rock, Taylor, and Wood;
- Funding a debt service reserve fund (DSRF) for the bonds equal to maximum annual debt service (MADS);
- Paying capitalized interest; and
- Paying costs of issuance.

The bonds are secured by payments by Bug Tussel 1 pursuant to the loan agreement and other money and investments held by the trustee under the indenture. In addition, each of the seven participating counties will enter into guaranty agreements pertaining to replenishment of their pro rata share of the DSRF in the event the trustee makes a draw for a debt service payment.

Under the loan agreement, Fond du Lac County will loan to Bug Tussel 1 the proceeds of the series 2022A bonds. Bug Tussel 1 will repay the loan with issuance of a promissory note that matches the maturity, principal, and interest rate on the series 2022A bonds. Payments on the promissory note will be made by Bug Tussel directly to the trustee. Bug Tussel anticipates debt service on the promissory note will be payable from revenue generated by its commercial operations.

Under the guaranty agreements, each county will guarantee the payment of its pro rata share of principal and interest on the bonds necessary to replenish the DSRF in the event the trustee draws on the DSRF for a debt service payment.

The obligations of each county under the guaranty agreements are absolute and unconditional and a general obligation of each county of which the county's full faith and credit taxing power is pledged.

The participating counties and their proportionate shares of the bonds are as follows:

- Green Lake County, 10.8%;
- Iowa County, 11.3%;
- Jefferson County, 21.5%;
- Oconto County, 17.8%;
- Rock County, 11.7%;
- Taylor County, 15.1%; and
- Wood County, 11.8%

Credit overview

The rating on the bonds is derived using our multiple revenue stream criteria, published Nov. 29, 2011, through a weak-link approach. Each county's obligation to replenish its pro rata share of the DSRF is several and not joint under the guaranty agreements. In the absence of a step-up provision, the rating reflects the credit quality of the weakest participating county, which is Taylor County.

Taylor County is in north-central Wisconsin, which is characterized by a predominantly manufacturing-oriented economy and steadily growing valuations, albeit with below-average income and wealth metrics. Offsetting our view of the county's economy, is its concentrated employment base in manufacturing. The county's operating performance improved in fiscal 2021 with a large general fund surplus, and another positive result is forecast for fiscal 2022. The county's debt profile is adequate, and we anticipate overall debt as well as fixed costs will remain manageable over the next few years.

Credit characteristics of the county, in our view, include:

- Very weak economy, with below-average income and wealth metrics with employment concentration in the manufacturing sector;
- Growing reserves, with recent and expected surpluses improving our view of the county's budgetary flexibility to very strong;
- Standard financial policies and practices and a strong institutional framework; and
- Moderate debt burden and a fully funded pension.

Environmental, social, and governance

The rating incorporates our view of environmental, social, and governance (ESG) risks relative to participating counties' economy, management, financial measures, and debt and liability profile. In our view, the ESG risks are neutral.

Outlook

The stable outlook reflects our view of the credit quality of Taylor County during the next two years. We do not anticipate changing the rating during the two-year outlook horizon based on anticipated credit conditions for the county during that time period.

Downside scenario

If Taylor County's budgetary performance were to deteriorate, leading to a weakening of reserves, we could lower the rating on the bonds.

Upside scenario

Should Taylor County's economic characteristics and budgetary flexibility improve to levels of higher-rated peers, while maintaining or improving its credit quality in other key areas, the rating on the bonds could be raised.

Credit Opinion

Very weak economy, with below-average incomes and employment concentration in the manufacturing sector

Taylor County is in north central Wisconsin, approximately 200 miles northwest of Milwaukee and 200 miles east of Minneapolis-St. Paul. The county's economy is characterized by below-average incomes and employment concentration in the manufacturing sector. In terms of industry, the county's two largest employers are food processing companies: pizza products manufacturer Nestle Prepared Foods Co. (600 employees), and cheese packaging manufacturer Marathon Cheese Corp. (550). Other major employers include a large hospital and clinic, a windows manufacturer, and the school district for the county seat, Medford. Management reports area employers have remained stable throughout the pandemic and that many continue to seek additional employees, although there is a shortage of available housing within the county. In our view, the county has a concentrated employment base, with greater than 30% of its nonfarm employment base working in manufacturing, which we view as a negative credit factor.

The county's tax base experienced steady growth in recent years, increasing at an annual rate of 3.4% during the past three years, reflecting a combination of residential and commercial growth. Management anticipates assessed valuations will continue to increase, with plans for new 60-unit apartment complex in Medford. In the future, we expect the county's economy will remain at its current very weak level, absent moderation of its manufacturing-oriented employment base.

Improved operations in fiscal 2021 are expected to continue in fiscal 2022, coupled with very strong budgetary flexibility and liquidity

For unaudited fiscal 2021, management indicates the county achieved a significant general fund surplus of approximately $1.3 million (9.9% of expenditures). This result was partially driven by the county's highest forestry revenue on record and better-than-budgeted sales tax revenue. The county received $1.97 million in American Rescue Plan Act (ARP) funding in fiscal 2021, which is not included in its general fund result.

For fiscal 2022, the county is on track to report a general fund surplus of at least $200,000 (1.5%). Contributing to this forecasted result is a combination of strong forestry and sales tax revenue.

In fiscal 2020, the county reported a small 1.1% general fund deficit after adjusting for one-time expenditures. The general fund's major revenue sources have been stable in recent years and primarily include taxes (mostly property taxes, 57%) and intergovernmental revenues (28.4%).

At fiscal 2020 year-end, the county reported total available general fund reserves of $1.7 million (11.8%). Based on surplus results for fiscal 2021 and anticipated for 2022, and a lack of plans to draw down reserves for any purpose, we expect budgetary flexibility will improve and be maintained at very strong levels during the next few years.

In fiscal 2020, the county reported approximately $5.7 million of cash and investments available for liquidity purposes after removing restricted amounts. The county has no exposure to direct-purchase debt, and we expect its liquidity will also remain very strong.

Standard financial policies and practices

Highlights to management practices include Taylor County's:

- Use of line-item budgeting with reference to three years of historical trend analysis when developing the annual budget;
- Regular budget amendments to reflect updated revenue and expenditure expectations, with monthly budget-to-actual results;
- Reporting on investment holdings to the board; and
- Formal fund balance policy requiring a minimum general fund reserve of 6%-10% of expenditures for cash flow and capital purposes.

The county does not maintain a formal long-term financial forecast, long-term capital plan, an investment management policy, and a debt management policy. However, we note it implemented policies and practices to help mitigate its exposure to cyber-security risks.

The institutional framework score for Wisconsin counties with populations less than 25,000 is strong.

Moderate debt levels with no additional debt plans

We calculate the county's total direct debt at approximately $28 million after factoring in its $14 million share of the series 2022A taxable revenue bonds. The county does not have any additional debt plans during the next few years. We do not anticipate the county's debt service costs will pressure operations. Overall, we expect the county's debt profile to remain manageable.

Low pension costs are not likely to accelerate, given the plan's strong funded status

Taylor County's pension costs are low as a share of total spending and are not likely to accelerate over upcoming years due to the plan's strong funding. The county participates in the Wisconsin Retirement System (WRS), which was 105% funded at Dec. 31, 2020, with an estimated county proportionate share of the plan's net pension asset of $3.9 million. The county offers other postemployment benefits (OPEB), which are funded on a pay-as-you-go basis. As of Dec. 31, 2019, the county's proportion of the net OPEB liability was $237,000.

WRS has routinely been among the nation's best-funded multiple-employer, defined-benefit pension plans. The plan's contributions are actuarially determined, and the county funds 100% of the required contribution annually. WRS' investment-rate-of-return assumption decreased to 7% in late 2018, from 7.2%. While the revised return assumption exceeds our 6% 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.

Taylor County, Wis.--Key Credit Metrics

	Most recent	Historical information		
		2020	2019	2018
Very weak economy				
Projected per capita EBI % of U.S.	74.6			
Market value per capita ($)	78,041	76,411	74,350	70,600
Population		20,426	20,297	20,365
County unemployment rate(%)	3.3			
Market value ($000)	1,585,641	1,560,780	1,509,079	
Ten largest taxpayers % of taxable value	0.1			
Strong budgetary performance				
Operating fund result % of expenditures		(1.1)	(4.7)	(1.3)
Total governmental fund result % of expenditures		1.3	(7.1)	(2.5)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		12.0	14.6	21.6
Total available reserves ($000)		1,700	1,909	2,774
Very strong liquidity				
Total government cash % of governmental fund expenditures		25.9	26.2	33.3
Total government cash % of governmental fund debt service		468.4	542.1	652.3
Adequate management				
Financial Management Assessment	Standard			
Adequate debt and long-term liabilities				
Debt service % of governmental fund expenditures		5.5	4.8	5.1
Net direct debt % of governmental fund revenue	124.9			
Overall net debt % of market value	2.8			
Direct debt 10-year amortization (%)	59.9			
Required pension contribution % of governmental fund expenditures		3.1		
OPEB actual contribution % of governmental fund expenditures		0.1		
Strong institutional framework				

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

Related Research

- Credit Conditions North America Q2 2022: Hazard Ahead: Risk Intersection, April 16, 2021
- 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
- 2020 Update Of Institutional Framework For U.S. Local Governments