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Summary:

Florence County, Wisconsin; General Obligation

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Summary:

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Credit Profile		
US$1.5 mil GO prom notes ser 2020A dtd 11/03/2020 due 10/01/2030		
Long Term Rating	AA-/Stable	New
Florence Cnty GO prom nts due 06/01/2024		
Long Term Rating	AA-/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' rating and stable outlook to Florence County, Wis.' roughly $1.5 million series 2020A general obligation (GO) promissory notes and affirmed its 'AA-' rating, with a stable outlook, on the county's existing GO debt.

Unlimited ad valorem property taxes secure the promissory notes.

Officials intend to use series 2020A note proceeds to finance various capital improvements and equipment.

Credit overview

While the full scope of economic and financial challenges posed by COVID-19 and the related recession are currently unknown, we think the county is well positioned to handle the pandemic during the next few fiscal years because of its lack of reliance on sales taxes, coupled with very strong reserves and liquidity. If effects of COVID-19 and recessionary pressure were to persist, however, they could likely have an adverse effect on the county's economy. In addition, if the state reduces revenue-sharing payments to municipalities because of budgetary pressure and decreases state revenue due to COVID-19 and recessionary pressure, it would stress county finances somewhat.

The rating also reflects our assessment of the county's:

- Weak economy, with a significant population decrease;
- Strong financial management, with good 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;
- Very strong budgetary flexibility, with available fund balance in fiscal 2019 at 71% of operating expenditures;
- Very strong liquidity, with total government available cash at 65.3% of total governmental-fund expenditures and 31.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt-and-contingent-liability position, with debt service carrying charges at 2.1% of expenditures and net direct debt that is 30.3% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with all debt scheduled to be retired within 10 years; and

- Adequate institutional framework score.

The stable outlook reflects S&P Global Ratings' opinion management will likely take the necessary steps to maintain balanced operations and very strong reserves during the next few fiscal years. Although our outlook is generally for two years, we foresee some downside risk due to COVID-19 and related recessionary pressure during the next 12 months.

Environmental, social, and governance (ESG) factors

The rating incorporates our view of health-and-safety risks posed by COVID-19, which we consider a social risk. COVID-19, however, does not greatly affect the county more than the sector standard. We have analyzed the county's other ESG risks relative to its economy, management, financial measures, and debt-and-liability profile and have determined all are in-line with the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the county cannot maintain balanced operations, resulting in substantially lower budgetary performance and flexibility.

Upside scenario

Holding all other rating factors constant, we could raise the rating if the county were to see ongoing and sustainable improvements in its economic metrics to levels we consider consistent with higher-rated peers.

Credit Opinion

Weak economy

We consider Florence County's economy weak. The county has a population estimate of 4,382. Projected per capita effective buying income is 84.5% of the national level and per capita market value is $154,193. Overall, market value grew by 7.1% during the past year to $675.7 million in fiscal 2020. Florence County's demographic profile, including a significant 6% population decrease, weakens its economy. Unemployment was 4.8% in 2019, which increased to 7.4% in July 2020 due to COVID-19 and recessionary pressure.

The county's economy centers on wood-products manufacturing and year-round tourism. The leading employer is a wood-products manufacturer with 115 employees. The county is in northeastern Wisconsin, adjacent to Michigan's Upper Peninsula. We project county population, which was stable from 2010-2020, will decrease by about 6% during the next 10 years, which we consider a negative rating factor. Many residents commute to jobs in Iron Mountain and Kingsford, across the Menominee River in Michigan's Upper Peninsula.

Equalized value (EV), including tax-increment districts, increased by 8.4% to $671.1 million from tax years 2016-2020. The property tax base is very diverse with the 10 leading taxpayers accounting for only 1.8% of EV.

Strong management

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

We changed the FMA to good from standard, which raised the management score to strong from adequate, because of our view of management's budget reports to the county board.

Highlights include management's:

- Use of multiyear historical data and input from several outside sources to project revenue and expenditures for each annual budget;
- Monthly budget-to-actual and treasurer's reports to the county board;
- Lack of multiyear financial projections;
- Five-year rolling capital improvement plan that identifies funding for projects, updated annually;
- Lack of a formal investment-management policy, so management invests according to state statutory guidelines;
- Lack of a debt-management policy; and
- Formal general-fund-balance policy to maintain unassigned general fund balance at a minimum 15%-25% of current-year expenditures to cover cash flow.

Strong budgetary performance

Florence County's budgetary performance is strong, in our opinion. The county had operating surpluses at 7.6% of expenditures in the general fund and 8.4% across all governmental funds in fiscal 2019.

Property taxes generated 41% of general fund revenue in fiscal 2019 while state and federal intergovernmental revenue accounted for 29% and timber sales accounted for another 10%. Under state law, state statute controls the county's operating levy, updated every other year by the Wisconsin Legislature in conjunction with the state's biannual budget. Sales taxes from the county's half-cent sales tax only provided about 4% of general fund revenue in fiscal 2019, and state revenue sharing provided another 2%; this indicates little performance vulnerability to COVID-19 and related recessionary pressure.

Officials conservatively structured the fiscal 2020 general fund budget with a $226,000 shortfall. Management expects it will improve on budgeted results and report a slight surplus for fiscal 2020.

Due to management's expectations for fiscal 2020 and the county's recent budgetary performance history, we expect budgetary performance will likely remain, at least, adequate during the next few fiscal years despite COVID-19 and the related recession.

Very strong budgetary flexibility

Florence County's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2019 at 71% of operating expenditures, or $5.5 million. We expect available fund balance will likely remain more than 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. During the past three fiscal years, total available fund balance remained consistent overall at 74% of expenditures in fiscal 2018 and 71% in fiscal 2017.

Our view of available operating reserves includes committed general fund balance, which management views as a stabilization fund, coupled with assigned and unassigned general fund balance.

Due to management's expectations for fiscal 2020, we think budgetary flexibility will likely remain very strong during the next few fiscal years.

Very strong liquidity

In our opinion, Florence County's liquidity is very strong, with total government available cash at 65.3% of total governmental-fund expenditures and 31.6x governmental debt service in fiscal 2019. In our view, the county has strong access to external liquidity if necessary.

Liquidity is $6.6 million of unrestricted cash and investments held in governmental and enterprise funds. The county typically invests in bank deposits and Wisconsin's local-government-investment pool, which we do not consider aggressive.

In our view, the county's access to external liquidity is strong due to its recent history of GO debt issuance. It does not currently have any variable-interest-rate debt. We understand the county does not currently have any direct-purchase or privately placed obligations that could unexpectedly cause a cash reduction.

Due to management's expectations for fiscal 2020, we think liquidity will likely remain very strong during the next few fiscal years.

Very strong debt-and-contingent-liability profile

In our view, Florence County's debt-and-contingent-liability profile is very strong. Total governmental-fund debt service is 2.1% of total governmental-fund expenditures, and net direct debt is 30.3% of total governmental-fund revenue. Overall net debt is low at 1% of market value and officials plan to retire all direct debt during 10 years, which are, in our view, positive credit factors.

The county has about $3.3 million of GO debt outstanding. Management does not currently have any additional new-money GO debt plans. Due to the absence of debt plans and rapid amortization, we think the county's debt profile will likely remain very strong during the next few fiscal years.

County pension contributions totaled 2.7% of total governmental-fund expenditures in fiscal 2019. The county made its full annual required pension contribution in fiscal 2019.

Pension and OPEB highlights

- The county's pension and OPEB costs are small as a share of total spending and are not likely to accelerate significantly during the next few fiscal years, especially because of the pension plan's strong funding.
- The county does not subsidize retiree health care; it, however, allows retirees to remain on the plan at their own expense, which results in an implicit rate subsidy.

The county participates in Wisconsin Retirement System (WRS), a multiple-employer, defined-benefit pension plan that is among the nation's best-funded public-pension plans.

WRS was 96.5% funded on a statewide basis at Dec. 31, 2018, with the county's proportionate share of net pension liability at $914,000. WRS' contributions are actuarially based, and the county pays 100% of its required contribution annually. The county paid $269,000 to WRS as its employer's contribution in fiscal 2019. WRS' investment-rate-of-return assumption decreased to 7% in fiscal 2018 from 7.2% in fiscal 2017.

While the revised return assumption exceeds our 6% guideline, WRS' employing of a shared-risk model--in which active-employee contributions help offset investment-performance fluctuations--and benefit payment adjustments somewhat mitigate market-volatility exposure.

Based on WRS' strong funding and contribution practices, we expect contributions will likely remain affordable.

Adequate institutional framework

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

Related Research

- 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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- The U.S. Economy Reboots, With Obstacles Ahead, Sept. 24, 2020
- 2019 Update Of Institutional Framework For U.S. Local Governments