

CREDIT OPINION

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CEDARBURG (TOWN OF) WI

New Issuer

Summary

The Town of Cedarburg (Aa3) benefits from a moderately sized and growing tax base in the Milwaukee metropolitan area, strong resident incomes, consistently strong reserves and moderate overall leverage with low fixed costs. These strengths are balanced against the town's nominally limited scope of operations with a very small budget and the legislative restrictions that limit the town's ability to raise property tax revenue.

On March 25, 2022, we assigned an initial Aa3 rating to the town's general obligation unlimited tax (GOULT) notes.

Credit strengths

- » Strong wealth and resident incomes
- » Consistently strong finances

Credit challenges

- » Nominally limited scale of operations with a very small operating budget
- » Legislative restrictions that affect the town's ability to raise property tax revenue

Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Continued growth and diversification of the tax base
- » Further bolstering of operating reserves coupled with growth in the size and scale of the town's operations

Factors that could lead to a downgrade

- » Significantly weakened financial profile
- » Material increases in leverage and fixed costs

Key indicators

Exhibit 1

Cedarburg (Town of) WI	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$832,167	\$874,307	\$913,211	\$977,735	\$995,881
Population	5,850	5,871	5,926	5,963	5,963
Full Value Per Capita	\$142,251	\$148,920	\$154,102	\$163,967	\$167,010
Median Family Income (% of US Median)	149.1%	144.6%	158.2%	155.5%	155.5%
Finances					
Operating Revenue (\$000)	\$2,643	\$2,778	\$2,746	\$2,843	\$3,098
Fund Balance (\$000)	\$1,636	\$1,051	\$1,359	\$1,457	\$1,645
Cash Balance (\$000)	\$4,083	\$3,103	\$3,573	\$3,277	\$3,677
Fund Balance as a % of Revenues	61.9%	37.8%	49.5%	51.2%	53.1%
Cash Balance as a % of Revenues	154.5%	111.7%	130.1%	115.3%	118.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$925	\$0	\$1,600	\$1,288	\$983
3-Year Average of Moody's ANPL (\$000)	\$1,320	\$1,345	\$1,430	\$1,452	\$1,610
Net Direct Debt / Full Value (%)	0.1%	0.0%	0.2%	0.1%	0.1%
Net Direct Debt / Operating Revenues (x)	0.3x	0.0x	0.6x	0.5x	0.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.2%	0.2%	0.2%	0.1%	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	0.5x	0.5x	0.5x	0.5x

Source: US Census Bureau, audited financial statements and Moody's Investors Service

Profile

The Town of Cedarburg is in [Ozaukee County](#) (Aaa stable) in the southeastern part of the [State of Wisconsin](#) (Aa1 stable) about 25 miles northwest of the [City of Milwaukee](#) (A2 negative). The town encompasses about 25 square miles and serves about 6,000 residents. Law enforcement is provided by the Ozaukee County Sheriff department and the town has a shared service agreement with the [City of Cedarburg's](#) (Aa2) Fire Department for fire and EMS services. The Town of Cedarburg has a public works department that addresses street maintenance, forestry and refuse collection. The town also handles zoning, economic development and parks and recreation services. Utilities are mainly handled by WE Energies, but some small areas of the Town are addressed by the City of Cedarburg Light and Water Utility. Most homes and businesses are served by private on-site wastewater systems such as septic, mound systems, holding tanks and private water wells. The town has 10 full time employees and 2 part time employees.

Detailed credit considerations

Economy and tax base: moderately sized tax base in the Milwaukee metropolitan area; strong wealth and resident incomes

The town's tax base will likely continue growing at a modest pace because of the growing population and continued residential development. Cedarburg is a bedroom community in the Milwaukee metropolitan area with residential properties comprising about 95% of equalized value. There have been between 10 to 15 new single family homes built in the town annually for several years, a trend that is likely to continue and will support stability in the tax base.

Financial operations and reserves: consistently strong financial position but small scale of operations exposes town to event risk

The town's financial profile will remain strong at least for the next couple of years because reserves are currently very strong and are expected to improve somewhat in fiscal 2021 and remain balanced in 2022. Fiscal 2021 estimates reflect an increase in fund balance of

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about \$200,000. The fiscal 2022 budget is balanced and management notes that the year is tracking very close to budget and does not expect any material changes in reserves. The town's American Rescue Plan Act (APRA) allocation will total just over \$600,000.

Historically, the town has an established track record of maintaining consistently strong reserves which somewhat mitigates risks associated with the legislative restrictions that limit the town's ability to raise property tax revenue. The town's fund balance has hovered around 50% of revenue for the last three years. Overall operating revenue is very limited, however, compared to Aa rated peers nationally. The total operating budget of just \$3 million exposes the town to event risk because a single event could have a material impact on the credit profile because of the nominally limited size of operations.

Liquidity

Fiscal 2020 closed with a net cash position of about \$3.7 million, equal to a very strong 120% of revenue. Cash is consistently higher than fund balance largely because of the timing of certain property taxes and special assessment receipts.

Debt and pensions: moderate leverage with no expectations for material increases

Overall leverage will remain moderate and fixed costs will remain low because the town does not have any additional borrowing plans for the next several years. Inclusive of the 2022 GOULT notes, the town will have just over \$5 million in debt outstanding, equal to about 1.7x revenue. Fixed costs, inclusive of debt service and pension contributions, will hover around 10% of revenue following the 2022 issuance.

Legal security

The town's GOULT notes are supported by an unlimited ad valorem property tax and are backed by its full faith and credit.

Debt structure

The town's debt is structured with level debt service through 2031 which is followed by a bullet maturity in 2032. The town plans to take out the bullet with another 10 year term before maturity.

Debt-related derivatives

The town has no exposure to any debt-related derivatives.

Pensions and OPEB

Cedarburg participates in the Wisconsin Retirement System (WRS), a statewide cost-sharing plan. Contributions are determined using a level contribution actuarial method in an effort to keep employer and employee contribution rates at a level percentage of payroll over time, and are set at 100% of the plan's funding requirement. As a result, WRS remains one of the best-funded public employee retirement systems in the country, with statewide employer contributions to WRS in 2020 totaling more than 160% of the amount needed to tread water.

The town's three-year average adjusted net pension liability (ANPL) totals about \$1.6 million, or just 0.5x operating revenue. Moody's ANPL reflects the use of a market-based discount rate to value pension liabilities rather than the assumed rate of investment return on plan assets. In comparison, the reported net pension liability (NPL), based on the plan's reported 7% discount rate, was a negative balance of just over \$100,000 in fiscal 2020, reflecting over funding on a reported basis.

ESG considerations

Environmental

Environmental risk is generally low for the local government sector and does not materially impact the town's credit profile. Data from Moody's affiliate Moody's ESG Solutions indicates that Ozaukee County, where the town is located, has no to medium exposure to the six environmental factors considered including floods, heat stress, sea level rise, water stress, wildfires and exposure to hurricanes and typhoons.

Social

Social considerations are a relatively neutral component of the town's overall credit profile. The town's population has been growing steadily in recent years and currently totals about 6,000 residents. The median age of the town's residents (45) is above the state (40) and national median (38). Median family incomes are equal to about 155% of the national figure.

Governance

Wisconsin cities have an institutional framework score ¹ of "A," which is moderate. The sector's major revenue source, property tax revenue, is subject to a cap that restricts cities from increasing their operating property tax levies except to capture amounts represented by net new construction growth. Revenues and expenditures tend to be predictable. Across the sector, fixed and mandated costs are generally high. Expenditures are somewhat flexible, as collective bargaining is allowed for public safety employees but is curbed for non-public safety employees. Many cities use tax increment districts to attract economic development, often issuing debt to fund initial infrastructure in undeveloped areas. While tax increment districts are ultimately expected to generate revenue sufficient to cover initial city outlay, cities are exposed to economic downturns which could halt development.

The Town of Cedarburg's governing board is elected at large for two-year terms. The town board is responsible for enacting ordinances, resolutions and regulations governing the town as well as the appointment of members of various statutory and advisory boards and the town administrator. The administrator is the chief executive officer who is the head of the administrative branch of the town and is accountable to the board for the proper administration of the business affairs of the town. The town follows a formal fund balance policy of maintaining general fund reserves equal to 40% of the prior year's budgeted expenditures, net of highway construction expenses for the year.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Cedarburg (Town of) WI

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$1,087,682	A
Full Value Per Capita	\$182,405	Aaa
Median Family Income (% of US Median)	155.5%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	53.1%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	-3.8%	Baa
Cash Balance as a % of Revenues	118.7%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	-13.8%	Ba
Notching Adjustments: ^[2]		
Other Scorecard Adjustment Related to Finances: Nominally limited scope of operations with a very small budget that exposes town to event risk		Down
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.5%	Aaa
Net Direct Debt / Operating Revenues (x)	1.7x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.1%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.5x	Aa
Scorecard-Indicated Outcome		Aa3
Assigned Rating		Aa3

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: US Census Bureau, audited financial statements and Moody's Investors Service

Endnotes

- 1 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(July 2020\)](#) methodology report for more details.

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