MOODY'S
INVESTORS SERVICE

CREDIT OPINION
14 January 2021

Rate this Research

Analyst Contacts

Ryan Patton +1.312.706.9954
Analyst
ryan.patton@moodys.com

Michael Wertz +1.212.553.3830
VP-Senior Analyst
michael.wertz@moodys.com

Dodge (County of) WI

Update to credit analysis

Summary

Dodge County, WI (Aa2) has a strong credit position supported by its large tax base, average resident income levels, and healthy financial reserves. Fund balance is expected to decline in 2020 and 2021 for planned capital spending but will remain strong. Overall leverage from debt and pensions is modest. These strengths are balanced against economic concentration in manufacturing and very modest enterprise risk associated with operation of a nursing home.

On January 14 we assigned a Aa2 rating to the county's $9.2 million General Obligation Promissory Notes, Series 2021A.

Credit strengths

» Healthy operating reserves relative to budget

» Modest debt and pension burdens

Credit challenges

» Economic concentration in manufacturing

» Very modest enterprise risks associated with a county operated nursing home

Rating outlook

Outlooks are typically not assigned to local governments with this amount of debt.

Factors that could lead to an upgrade

» Substantial expansion of the county's tax base and improvement in resident income indices

» Strengthening of operating fund reserves relative to budget

Factors that could lead to a downgrade

» Sustained contraction of the county's tax base

» Narrowing of operating fund reserves

» Increased leverage from debt or pensions

Key indicators

Exhibit 1
Dodge (County of) WI

Dodge (County of) WI	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$5,927,146	$5,991,793	$6,097,891	$6,595,192	$6,971,933
Population	88,547	88,404	87,833	87,776	87,776
Full Value Per Capita	$66,938	$67,777	$69,426	$75,137	$79,429
Median Family Income (% of US Median)	101.1%	100.0%	99.6%	99.3%	99.3%
Finances					
Operating Revenue ($000)	$92,839	$96,719	$98,938	$103,718	$69,457
Fund Balance ($000)	$25,911	$25,172	$26,561	$31,543	$27,540
Cash Balance ($000)	$33,734	$33,329	$32,851	$37,472	$32,304
Fund Balance as a % of Revenues	27.9%	26.0%	26.8%	30.4%	39.7%
Cash Balance as a % of Revenues	36.3%	34.5%	33.2%	36.1%	46.5%
Debt/Pensions					
Net Direct Debt ($000)	$35,935	$33,130	$30,575	$28,240	$25,895
3-Year Average of Moody's ANPL ($000)	$59,032	$84,163	$94,587	$103,609	$107,137
Net Direct Debt / Full Value (%)	0.6%	0.6%	0.5%	0.4%	0.4%
Net Direct Debt / Operating Revenues (x)	0.4x	0.3x	0.3x	0.3x	0.4x
Moody's - ANPL (3-yr average) to Full Value (%)	1.0%	1.4%	1.6%	1.6%	1.5%
Moody's - ANPL (3-yr average) to Revenues (x)	0.6x	0.9x	1.0x	1.0x	1.5x

The county began reporting its nursing home and highway maintenance operations as proprietary funds in 2019, and so these funds are not included in our calculation of operating funds beginning in 2019.
Source: Audited financial statements, US Census Bureau, Moody's Investors Service

Profile

Dodge County comprises over 900 square miles between the cities of Milwaukee and Madison and has an estimated population of approximately 88,000 residents.

Detailed credit considerations

Economy and tax base: large tax base between Madison and Milwaukee; employment concentrated in manufacturing

The county's large $7 billion property tax base will continue to be a credit strength given its location between Madison and Milwaukee. While the current economic slowdown could drag on valuation in the next assessment cycle, recent trends have been positive. Annual growth in full value averaged 4.2% over the past five years. Residential property accounts for the majority of the tax base at nearly 70% of full value, followed by commercial and manufacturing property, which together comprise about 20%. Taxpayer concentration is modest, with the top ten taxpayers accounting for just 5.5% of full value.

We expect the impact of the coronavirus pandemic on the local economy will be relatively limited given the stability of its major employers. At 3.8% in October 2020, the county's unemployment rate continues to track lower than both the state (4.9%) and national (6.6%) rates. While the base is showing some signs of diversifying, still nearly 20% of county employment is concentrated in manufacturing and anchored by John Deere, which employs nearly 5,000 workers at its lawn equipment and tractor facility in the City of Horicon (A2). Several other manufacturers are counted among the county's largest employers, in addition to the printing company Quad/Graphics, Inc. (B1 negative, 5,000 employees), a regional medical center, and local units of government.

Financial operations and reserves: healthy reserves despite planned draws for capital

We expect the county will maintain healthy reserves despite some planned draws for capital, as major revenue sources have been largely stable and there is limited growth in operating expenses. While audited results for 2020 are not yet available, the county reports a $4.3 million decline in general fund reserves. The draw is largely attributable to construction of a $3.4 million highway maintenance facility as well as the closing of a revolving loan fund. Notably, positive operations resulted in the draw being $700,000 less than anticipated. Sales tax revenue reportedly increased 7% due to an increase in online shopping. Despite the draw, we expect the available operating fund balance (general and health and human service funds) will remain healthy at approximately 33% of revenue.

Management anticipates using another $1 million of reserves in fiscal 2021 in order to fund one-time expenses without increasing the property tax rate. The majority of the county's operating fund revenues are derived from property taxes (39% of fiscal 2019 operating revenue), followed by intergovernmental aid and charges for services, each at 23%. Sales taxes account for 10% of operating revenue.

Enterprise risk stemming from Clearview, a 236-bed long term care facility, will remain modest given its strong financial operations and adequate reserves. Management reports that only a handful of COVID cases have been reported at the facility, and many residents have already received vaccinations. The nursing home receives an annual property tax transfer from the general fund in order to pay debt service on general obligation bonds that funded construction of the current facility in 2012, but operations are otherwise self-supporting. Management reports that the nursing home will add roughly $500,000 to net position in fiscal 2020, aided by receipt of nearly $2 million in CARES funding. No draws are anticipated for fiscal 2021. At the close of 2019, Clearview had a satisfactory unrestricted net position of $5.5 million or roughly 20% of operating expenses.

Liquidity

The county's net operating cash across its major operating funds at the close of fiscal 2019 was $32 million, or a healthy 47% of operating fund revenue. The cash position for Clearview totaled $2.3 million or an adequate 9% of its operating expenses. The county's internal service funds also held $12.3 million. Cash levels are expected to remain sufficient to meet the county's cash flow needs and provide a cushion in the event of sudden increase in expenditures.

Debt and pensions: modest debt and pension burden

We expect the county's debt burden will remain modest given rapid amortization with limited plans for additional borrowing. Inclusive of the 2021A notes, net direct debt is low at 0.5% of full value and 0.5x fiscal 2019 operating fund revenue. Management anticipates issuing another $9 million for road projects next, but reports there are no other needs for additional debt.

The district's adjusted net pension liability (ANPL) was $107 million in 2020, equivalent to 1.5x operating revenue and 1.5% of full value. Fixed costs, including debt service, pension, and other post employment benefits (OPEB) contributions, are moderate at about 10% of revenue.

Legal security

The county's GOULT debt, including the Series 2021A bonds, are secured by the county's general obligation unlimited tax pledge, which is not limited as to rate or amount.

Debt structure

All of the county's outstanding debt is fixed rate, with approximately 95% of outstanding principal retired within 10 years.

Debt-related derivatives

The county does not have any debt-related derivatives.

Pensions and OPEB

The county 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 typically exceeding the amount needed to tread water.[1]

The county's adjusted net OPEB liability is very modest at $5.3 million and is not a material credit factor. OPEB contributions totaled $239,000 or 0.3% of operating revenue in fiscal 2019.

ESG considerations

Environmental

US local governments generally have low exposure to environmental risk. Based on data from Moody's affiliate Four Twenty Seven, Dodge County has fairly average exposure to heat stress and extreme rainfall events compared to counties nationally. The region relies heavily on groundwater resources, which indicates potentially greater exposure to water stress than counties nationally, but groundwater supply remains abundant. The county is actively involved in land and water conservation.

Social

County population has remained fairly stable since 2010, with only very modest declines in recent years. Resident income levels track closely with the national median.

Governance

Governance is very strong, and the county has a demonstrated track record of adjusting expenditures to match revenue fluctuations and maintaining strong reserve levels.

Wisconsin counties have an institutional framework score [2] of "A", which is moderate. The sector's major revenue source, property tax revenue, is subject to a cap which limits increases to amounts represented by net new construction growth. However, counties may implement a 0.5% sales tax, which diversifies operating revenue. Revenues and expenditures tend to be predictable. Across the sector, fixed and mandated costs are generally moderate. Counties have a high ability to reduce expenditures, as workforces are mainly comprised of non-public safety employees, for whom collective bargaining is limited.

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

Dodge (County of) WI

Rating Factors	Measure	Score
Economy/Tax Base (30%)[1]		
Tax Base Size: Full Value (in 000s)	$6,971,933	Aa
Full Value Per Capita	$79,429	Aa
Median Family Income (% of US Median)	99.3%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	39.7%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	2.3%	A
Cash Balance as a % of Revenues	46.5%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	-1.1%	Baa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.4%	Aaa
Net Direct Debt / Operating Revenues (x)	0.4x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.5%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.5x	A
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa2

[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.
Sources: US Census Bureau, Moody's Investors Service

Endnotes

1 Employer contributions that tread water equal the sum of current year service cost and interest on reported net pension liabilities at the start of the year, using reported actuarial assumptions. If plan assumptions are met exactly, contributions equal to the tread water indicator will prevent the reported net pension liabilities from growing. Net liabilities may decrease or increase in a given year due to factors other than the contribution amount, such as investment performance that exceeds or falls short of a plan's assumed rate of return.

2 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.

REPORT NUMBER 1260711

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's INVESTORS SERVICE