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Ratings

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Summary:

Boulder Junction Town, Wisconsin; General Obligation

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Credit Profile		
US$5.0 mil GO rfdg bnds dtd 05/01/2018 due 03/01/2035		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' rating and stable outlook to Boulder Junction, Wis.' series 2018 general obligation (GO) refunding bonds.

The town's full-faith-and-credit pledge and unlimited-taxing powers secure the series 2018 GO refunding bonds.

The town is issuing the series 2018 bonds to current refund its note anticipation notes issued in early 2018, which provided interim financing for road-improvement projects.

The rating reflects our opinion of the town's:

- Strong economy, with projected per capita effective buying income at 111% of the national level and market value per capita of $494,554;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total-governmental-fund level in fiscal 2016;
- Very strong budgetary flexibility, with high available reserves in fiscal 2016 of 88% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.7x total-governmental-fund expenditures and 6.7x governmental debt service;
- Weak debt-and-contingent-liability position, with debt service carrying charges at 25.6% of expenditures and net direct debt that is 394.6% of total-governmental-fund revenue, but low overall net debt at less than 3% of market value; and
- Adequate institutional framework score.

Strong economy

We consider Boulder Junction's economy strong. The town, with an estimated population of 901, is in Vilas County. The town has a projected per capita effective buying income of 111% of the national level and per capita market value of $494,554. Overall, market value fell by 1.7% over the past year to $445.6 million in fiscal 2017. The county unemployment rate was 5.8% in 2016.

Boulder Junction is approximately 185 miles northwest of Green Bay and 90 miles north of Wausau in northern Wisconsin. The town is primarily a tourist area since it is a popular location for fishing, biking, snowmobiling, and lake-related activities. In addition, the majority of houses in the town are highly valued vacation homes, which is the primary factor of, what we consider, an extremely strong market value per capita. We understand the population typically swells to about 5,000 during the summer, which supports cabin and hotel tax receipts.

Strong management

We view the town's 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.

Elements include management's:

- Realistic, well-grounded assumptions when setting the annual budget;
- Monthly reports on budget-to-actual results to the town board;
- Lack of formal long-term financial projections and capital plans;
- Formal investment-management policy that mirrors state guidelines with monthly treasurer's reports to the board;
- Formal debt-management policy that limits debt capacity to 75% of state law; and
- Formal fund-balance policy to maintain 20% of general fund expenditures.

Strong budgetary performance

Boulder Junction's budgetary performance is strong, in our opinion. The town had slight operating surpluses of 0.5% of expenditures in the general fund and 0.5% of expenditures across all governmental funds in fiscal 2016.

The town only operates a general fund that typically produces slight surpluses. The primary expenditure, aside from debt service, is transportation, related to snow-removal expenses that can fluctuate year to year. After reporting a slight 0.5% surplus in fiscal 2016, the town reported near breakeven results for fiscal 2017. Management reports it had a mild winter and lower-than-expected snowfall-related expenditures.

At this point in fiscal 2018, management expects to produce another near-balanced result. Since the town typically produces balanced results, we expect budgetary performance will likely remain, at least, adequate.

Very strong budgetary flexibility

Boulder Junction's budgetary flexibility is very strong, in our view, with high available reserves in fiscal 2016 of 88% of operating expenditures, or $1.5 million. We expect available reserves to remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Negatively affecting budgetary flexibility, in our view, is Boulder Junction's use of cash accounting, which reduces clarity about the amount of funds truly available.

Fund balance has grown to $1.5 million recently, and management expects to maintain at least $1.5 million over the next few fiscal years. Due to balanced results for fiscal 2017 and management's expectation of maintaining at least $1.5 million in general fund reserves, we expect budgetary flexibility will likely remain very strong.

Very strong liquidity

In our opinion, Boulder Junction's liquidity is very strong, with total government available cash at 1.7x total-governmental-fund expenditures and 6.7x governmental debt service in fiscal 2016. In our view, the town has satisfactory access to external liquidity if necessary.

Based on past debt issuance, we believe Boulder Junction has satisfactory access to capital markets to provide for liquidity, if needed. The town has three bank loans outstanding subject to acceleration provisions. These loans amount to roughly $175,000; therefore, we do not believe these loans have a negative effect on liquidity.

We consider the town's investments nonaggressive because it primarily invests in local bank deposits. Management has not indicated a need to draw on total cash, so we expect liquidity will likely remain very strong.

Weak debt-and-contingent-liability profile

In our view, Boulder Junction's debt-and-contingent-liability profile is weak. Total-governmental-fund debt service is 25.6% of total-governmental-fund expenditures, and net direct debt is 394.6% of total-governmental-fund revenue. Overall net debt is, what we consider, low at 1.9% of market value, which is, in our view, a positive credit factor.

Officials indicate they do not currently have any additional debt plans. We note that the carrying charge is higher and that this could lead to rating pressure if it were to decline materially.

The town made its full annual required pension contribution in fiscal 2016.

Eligible Boulder Junction employees participate in the Wisconsin Retirement System, a multiemployer, defined-benefit pension plan. At Dec. 31, 2016, the town reported a liability of $27,325 for its proportionate share of the net pension liability. An actuarial valuation--as of Dec. 31, 2014, rolled forward to Dec. 31, 2015--determined the total pension liability used to calculate net pension assets. No material changes in assumptions or benefit terms occurred between the actuarial valuation and measurement dates.

The town does not currently offer other postemployment benefits.

Adequate institutional framework

The institutional framework score for Wisconsin municipalities is adequate.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Boulder Junction will likely maintain its very strong budgetary flexibility and liquidity during the two-year outlook period. We believe very strong market value per capita provides additional rating stability. Therefore, we do not expect to change the rating over the outlook period.

Upside scenario

We could raise the rating if per capita income were to increase to levels we consider very strong, coupled with reduced debt to levels we consider adequate.

Downside scenario

We could lower the rating if unforeseen budget pressure were to lead to significantly decreased reserves or if debt were to increase substantially.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments