

# RatingsDirect®

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## Summary:

# Cresco, Iowa; General Obligation

### Primary Credit Analyst:

Melody W Vinje, Englewood + 1 (303) 721 4163; melody.vinje@spglobal.com

### Secondary Contact:

Blake E Yocom, Chicago + 1 (312) 233 7056; blake.yocom@spglobal.com

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## Summary:

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### Credit Profile

US\$4.6 mil GO cap loan nts ser 2023 due 06/01/2043

*Long Term Rating* A+/Stable New

Cresco GO rfdg & cap ln nts

*Long Term Rating* A+/Stable Affirmed

## Credit Highlights

- S&P Global Ratings assigned its 'A+' long-term rating to the City of Cresco, Iowa's \$4.6 million series 2023 general obligation (GO) capital loan notes.
- At the same time, S&P Global Ratings affirmed its 'A+' long-term rating on the city's existing GO debt.
- The outlook is stable

## Security

Cresco's unlimited-tax GO pledge secures the notes. The proceeds will be used to finance various street projects and a water tower.

## Credit overview

Cresco finished fiscal 2022 with its third consecutive surplus (17.4% of expenditures), adding to its general fund balance. Over the past three years, decreasing expenses from delayed projects, receipt of grants and federal funds, higher revenues for local option sales tax, and conservative budgeting led to large surplus results. As the city's 2023 fiscal year-end approaches (June 30), management anticipates the general fund will end with a \$270,000 deficit (7.4% of expenses), due to completion of capital projects at higher costs than original bids. Given the city's healthy reserves on a cash basis and liquidity, we believe it has cushion to mitigate the impact of a shortfall. Also included within the 2023 budget are wage increases; 12% for police and 6% for all other city employees.

The Iowa Legislature recently passed a property tax reduction bill (House File 718). Management determined this will result in a \$55,000-\$70,000 reduction in property tax beginning in the city's 2025 levy year. However, management believes the shortfall will be mitigated by several currently tax-exempt properties becoming taxable in 2025. In addition, the council has begun identifying other revenue streams to replace potentially lost revenues and areas for cost-cutting within the budget. The city has \$442,000 remaining in American Plan Rescue funds, held in a separate fund from general operations, and will use it to defray costs of the water tower.

Cresco is in rural northeast Iowa with a primarily residential tax base, followed by commercial and agriculture. Employment base is concentrated in the manufacturing sector, which accounted for 30% of total county employment. Other major employers are in the agriculture and health care industries. Management reports a few small commercial and residential developments are underway, but the full taxable value of new homes will be realized five years after

construction per the tax incentive program.

The rating reflects our opinion of the city's:

- Weak economy, with a diverse tax base, but lower-than-national-average incomes and employment concentration;
- Consistent budgetary performance attributable to conservative assumptions and budget monitoring, predictable revenue structure of primarily property tax (41%) and charges for services (35%), along with strong reserves on a cash basis maintained in line with the city's informal fund balance target of three months or 30% of operating expenditures;
- Standard management policies and practices, including monthly budget-to-actual results presented to council, a five-year capital plan with a yearly review by council for prioritization of projects, and an investment policy. The institutional framework score is strong; and
- Adequate debt profile with slow amortization with this issuance, and no additional debt plans in the next two years, combined with participation in Iowa Public Employee Retirement System, a cost sharing multiple employer plan that is well funded. The city does not offer other postemployment benefits. Pension costs were 3.1% of the budget in 2022; because Iowa municipalities can levy for these fixed costs, we do not view it as financial pressure.

### Environmental, social, and governance

We incorporated the city's environmental, social, and governance (ESG) risks into our analysis and found them to be neutral.

## Outlook

The stable outlook reflects our expectation that the city will maintain relatively balanced operations and stable reserves over the next two years.

### Downside scenario

If budgetary structural imbalances develop, resulting in a material decline in reserves without a plan for replenishment, we could lower the rating.

### Upside scenario

We could raise the rating if the city's economy or population expands, demonstrating improved incomes and reduced employer concentration.

Cresco, Iowa--key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
<b>Very weak economy</b>				
Projected per capita EBI % of U.S.	71.8			
Market value per capita (\$)	62,421			
Population		3,728	3,754	
County unemployment rate(%)		3.8		
Market value (\$000)	232,705	217,333	215,186	

Cresco, Iowa--key credit metrics (cont.)	Most recent	Historical information		
		2022	2021	2020
Ten largest taxpayers % of taxable value	18.0			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		17.4	18.7	5.1
Total governmental fund result % of expenditures		17.7	15.5	-3.7
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		107.7	100.9	75.6
Total available reserves (\$000)		3,796	3,183	2,585
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		124.2	114.7	93.6
Total government cash % of governmental fund debt service		1,690.4	935.7	1,051.7
<b>Adequate management</b>				
Financial Management Assessment	Standard			
<b>Adequate debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		7.3	12.3	8.9
Net direct debt % of governmental fund revenue	113.9			
Overall net debt % of market value	4.1			
Direct debt 10-year amortization (%)	44.3			
Required pension contribution % of governmental fund expenditures		3.1		
OPEB actual contribution % of governmental fund expenditures		0.0		
<b>Strong institutional framework</b>				

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

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments

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