

# RatingsDirect®

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## Summary:

# Missouri Development Finance Board Independence; Appropriations; General Obligation

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## Summary:

# Missouri Development Finance Board Independence; Appropriations; General Obligation

### Credit Profile

US\$4.845 mil infrastructure facs rev bnds (Independence) Santa Fe - Redev Proj ser 2015A dtd 03/12/2015 due 06/30/2045		
<i>Long Term Rating</i>	A-/Stable	New
US\$3.535 mil taxable infrastructure facs rev bnds Independence Santa Fe Redev ser 2015B dtd 03/12/2015 due 06/30/2045		
<i>Long Term Rating</i>	A-/Stable	New
Independence ICR		
<i>Long Term Rating</i>	A/Stable	Affirmed
<b>Missouri Dev Fin Brd, Missouri</b>		
Independence, Missouri		
Missouri Dev Fin Brd (Independence) taxable infrastructure facs rev bnds ser 2008		
<i>Long Term Rating</i>	A-/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'A-' long-term rating to the Missouri Development Finance Board's series 2015A infrastructure facilities revenue bonds (Santa Fe Redevelopment Project) and 2015B taxable infrastructure facilities revenue bonds (Santa Fe Redevelopment Project), issued on behalf of Independence, Mo. At the same time, Standard & Poor's affirmed its 'A' issuer credit rating (ICR) on Independence, and its 'A-' long-term rating on the city's existing infrastructure debt. The outlook is stable.

The 'A-' rating on the series 2015A and 2015B bonds as well as on the existing bonds reflects a pledge of loan repayments from the city, which are subject to annual appropriation pursuant to the financing agreements and trust indentures securing the bonds. The city has pledged to annually appropriate monies for loan payments from any legally available funds before the conclusion of its fiscal year on June 30. Loan payments are due immediately preceding the April 1 and Oct. 1 debt service payment dates, which are more than three months into the fiscal year.

The 'A' ICR reflects our assessment of the city's:

- Weak economy, which benefits from the broad and diverse Kansas City metropolitan statistical area (MSA);
- Strong management conditions with "good" financial policies and practices;
- Adequate budgetary flexibility, with available reserves at 6.1% of operating expenditures in 2014, which will likely be sustained in 2015;
- Strong budgetary performance in fiscal 2014 and expected through fiscal 2015;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures;
- Very weak debt and contingent liabilities position; and
- Adequate institutional framework score.

### **Weak economy**

In our view Independence's local economy is weak with per capita market value at approximately \$48,100 and projected per capita effective buying income at roughly 80% of the national average. In 2013, Jackson County's unemployment rate was 7.5%, according to the Bureau of Labor Statistics. Officials indicate the local economy appears to be slowly improving, citing the presence of proposed and recent new developments, which we believe will have a positive impact on its revenue stream. In our view, the city's residents benefit from the area's participation in the broad and diverse Kansas City, Mo., and Kansas City, Kansas metropolitan statistical area. We view this as a credit strength.

### **Strong management conditions**

Independence's management conditions are strong in our view, with "good" financial practices under our Financial Management Assessment methodology, indicating the government, in our opinion, maintains adequate policies in some but not all key areas. Strengths of the assessment, in our opinion, include long-term financial and capital planning, strong oversight in terms of monitoring its progress against the budget during the year, and a formal plan to replenish reserves until they reach the city's formal policy of 5% of revenues, which it accomplished in fiscal 2014.

### **Adequate budgetary flexibility**

Independence's budgetary flexibility is adequate in our opinion, with available reserves at 6.1% of operating expenditures in fiscal 2014 (ended June 30), a significant improvement from the city's weaker levels in 2013. Management's goal, as per an ordinance adopted in 2013, was to replenish reserves to meet its 5% of revenues policy, after previously drawing on general fund reserves to cover debt service that should have been funded in its entirety by revenues from underperforming special project areas. We anticipate that the city's budgetary flexibility will remain at an adequate level in 2015.

### **Strong budgetary performance**

Independence's budgetary performance was strong in 2014, with a surplus of 1.1% for the general fund and a surplus of 1.1% for the total governmental funds. The 2015 budget was balanced at its onset. Overall revenues through Dec. 31 were trending about \$886,000 below budget. However, management indicates expenditures were on track with the budget at the midpoint of the fiscal year, and may end with a positive variance. Thus we expect budgetary performance will remain strong in fiscal 2015.

### **Very strong liquidity**

In our view, very strong liquidity supports Independence's finances, with total government available cash at 82% of total government fund expenditures and at 5.9x debt service. Based on past debt issuances, which include frequency of issuance and type of debt issuance, we believe that the issuer has exceptional access to capital markets to provide for liquidity needs, if necessary.

### **Very weak debt and contingent liabilities**

In our opinion, Independence's debt and contingent liabilities profile is very weak. Total governmental fund debt service is 13.9% of total governmental funds expenditures and net direct debt is 220.6% of total governmental funds revenue.

Independence has \$510 million in direct debt outstanding, all of which is backed by an annual appropriation pledge plus another underlying revenue source. Pledged utility revenues account for the largest share of appropriation debt

(48%), with tax increment fund revenues (33%) and sales taxes (19%) accounting for the balance. A large amount of the city's debt has been issued to fund various economic development projects. Debt service schedules relating to these financings were sized to meet revenue growth projections, but, in some cases, new development and corresponding increases in tax increment revenues have fallen short of -- or are only just meeting -- expectations. While the city has shown the capacity to fund near-term shortfalls in pledged revenues, any decreases or prolonged stagnancy in pledged revenues could significantly impair the general fund's ability to continually support operations plus these payments. We expect the city's efforts to restructure this debt will alleviate future pressure on the general fund.

We view the issuers' pension/other postemployment benefit (OPEB) obligations as large, which we consider a negative credit factor. As directed by the Missouri Local Government Employees Retirement System (LAGERS), Independence contributed 86% of its annual required pension contribution in 2014, but its unfunded accrued liability was \$98.2 million, and the liability was only 56% funded. The annual pension and OPEB costs accounted for 15% of the total government expenditures in fiscal 2014. Management has confirmed they have no contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events.

### **Adequate institutional framework**

We consider the institutional framework score for Missouri municipalities adequate. See the Institutional Framework score for Missouri.

## **Outlook**

The stable outlook reflects our view of Independence's efforts and progress in restructuring its near-term debt and its budget, resulting in improved budget flexibility in 2014. We expect the city to continue making adjustments to its financial operations to ensure it remains structurally balanced. Furthermore, we expect the city will continue to manage the challenges presented by its underperforming special project areas. While we don't anticipate changing the rating during the two-year outlook horizon, sustained improvement in budget flexibility and performance and in the city's debt profile could lead to a raised rating. Conversely, if the city falls short on its efforts to manage its budget and its debt, we could lower the rating.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

### **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Missouri Local Governments

**Ratings Detail (As Of February 17, 2015)**

**Ratings Detail (As Of February 17, 2015) (cont.)**

**Missouri Dev Fin Brd, Missouri**

Independence, Missouri

Missouri Dev Fin Brd (Independence) infrastructure facs rev

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds ser 2006F (Centerpoint Proj)

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds ser 2006 (Drumm Farm Proj)

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds ser 2007A

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds ser 2007B

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds ser 2007D

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds (Centerpoint Proj)

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds (Centerpoint Proj)

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds (Eastland Ctr Proj)

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds (Events Ctr Proj)

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds (Events Ctr Proj)

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds (Hartman Heritage Proj)

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds (Independence) (Centerpoint Proj) ser 2014B due 04/01/2027

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds (Independence) (Eastland Ctr Proj) ser 2014A due 04/01/2022

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) infrastructure fac rfdg rev bnds (Crackerneck Creek proj)

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) taxable infrastructure facs rev bnds ser 2006A (Crackerneck Creek Proj)

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) taxable infrastructure facs rev bnds ser 2007C

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) taxable infrastructure fac rfdg rev bnds (Crackerneck Creek Project)

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) taxable & tax exempt infrastructure facs bnds ser 2006B&C

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) (Crackerneck Creek Proj) infrastructure facs rev bnds ser 2005C

*Long Term Rating* A-/Stable Affirmed

Missouri Dev Fin Brd (Independence) (Drumm Farm Proj) infrastructure facs rev bnds ser 2005B

*Long Term Rating* A-/Stable Affirmed

**Ratings Detail (As Of February 17, 2015) (cont.)**

Missouri Dev Fin Brd (Independence) (Public Safety Proj) infrastructure facs rev bnds ser 2005A

*Long Term Rating*

A-/Stable

Affirmed

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