S&P Global
Ratings

RatingsDirect®

Summary:

Missouri Development Finance Board Independence; Appropriations; General Obligation

Primary Credit Analyst:
David H Smith, Chicago (312) 233-7029; david.smith@spglobal.com

Secondary Contact:
John A Kenward, Chicago (1) 312-233-7003; john.kenward@spglobal.com

Table Of Contents

Summary:

Missouri Development Finance Board Independence; Appropriations; General Obligation

Credit Profile		
US$10.445 mil infrastructure facilities rfdg rev bnds (Eastland Ctr Proj) ser 2017A due 04/01/2022		
Long Term Rating	A-/Stable	New
US$2.22 mil infrastructure facilities rfdg rev bnds (Independence) (Hartman Heritage Proj) ser 2017B due 04/01/2019		
Long Term Rating	A-/Stable	New
Independence ICR		
Long Term Rating	A/Stable	Affirmed
Missouri Dev Fin Brd, Missouri		
Independence, Missouri		
Missouri Dev Fin Brd (Independence) taxable infrastructure fac rfdg rev bnds (Crackerneck Creek Project)		
Long Term Rating	A-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A-' long-term rating to the Missouri Development Finance Board's series 2017A infrastructure facilities refunding revenue bonds (city of Independence, Missouri--Eastland Center Project) and 2017B infrastructure facilities refunding revenue bonds (city of Independence, Mo.--Hartman Heritage project), issued on behalf of Independence, Mo. At the same time, we affirmed our 'A' issuer credit rating (ICR) on Independence and our 'A-' long-term rating on the city's existing appropriation debt. The outlook is stable.

The 'A-' rating on the series 2017A and B bonds as well as on the existing bonds reflects the city's pledge of loan repayments, 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. The series 2017A and B bonds are payable from tax-increment financing revenues, but we rate the bonds based on the city's appropriation pledge, which we view as the stronger pledge.

The 'A' ICR reflects our assessment of the following strengths and weaknesses which, when taken as a whole, support the rating, specifically Independence's:

- Weak economy, with projected per capita effective buying income at 81.8% and market value per capita of $49,609, that is gaining advantage from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance, with break-even operating results in the general fund but break-even operating results at the total governmental fund level in fiscal 2016;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2016 of 6.8% of operating expenditures;

- Very strong liquidity, with total government available cash at 98.8% of total governmental fund expenditures and 7.6x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability position, with debt service carrying charges at 13.0% of expenditures and net direct debt that is 203.2% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Adequate institutional framework score.

Weak economy

We consider Independence's economy weak. The city, with an estimated population of 118,248, is located in Jackson County in the Kansas City, MO-KS MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income (EBI) of 81.8% of the national level and per capita market value of $49,609. Overall, the city's market value grew by 0.7% over the past year to $5.9 billion in 2017. The county's unemployment rate was 5.1% in 2016.

Major employers in the city include the local school district (2,200 employees), small arms ammunition manufacturer Orbital ATK (1,722), and Centerpoint Medical Center (1,400). The city's top 10 taxpayers represent 6% of assessed valuation (AV). The city's tax base primarily comprises residential property (73%), followed by commercial property (13%). The city reports that it has experienced residential building permit growth in 2017 due to several large multi-family developments. We do not anticipate a change in our assessment of the local economy within the next two years.

Adequate management

We view the city's management as adequate, with "standard" financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas.

The city uses 10 years of historic trend analysis and line-by-line budgeting when developing its annual budget. It produces monthly financial reports for elected officials, which include budget-to-actual performance. The city has recently adopted a five-year strategic plan outlining future goals. Long-term financial forecasting is currently mainly at the utility system level. The city is planning to develop a five year, long-term capital plan in July 2017. The city has its own investment policy, which it recently updated, and intends to begin providing investment updates monthly to the city council. The city recently raised its formal fund balance policy to maintain unassigned reserves from 5% to 16% of expenditures, which it currently is not meeting, but plans to reach in the coming years.

Adequate budgetary performance

Independence's budgetary performance is adequate in our opinion. The city had break-even operating results in the general fund, but a balanced result across all governmental funds of 0.4% in fiscal 2016. General fund operating results of the city have been stable over the past three years, with a result of 1.1% in 2015 and a result of 1.1% in 2014. Weakening our view of Independence's budgetary performance is the city's deferral of significant expenditures, which we think inflates budgetary result ratios.

The city's budgetary performance reflects adjustments made for recurring transfers into the general fund from utilities. The city reported a small decline in reserves of $3,835 in fiscal 2016 (year ended June 30). Total governmental funds performance was positive in fiscal 2016 and has generally been stable in recent years. The city has not paid its actuarially determined contributions to its pension plan in recent years, which has masked weaker budgetary performance.

For fiscal 2017, the city is currently on track for a slight deficit of $114,620, which is slightly better than its original projections. The city recently raised its cable franchise fee taxes, which had been below the state's cap of those types of revenues. The city has recently experienced a decline in natural gas franchise taxes and electric franchise taxes. With regard to fiscal 2018, the city expects to adopt a budget with a deficit of approximately $500,000, due in part to conservative assumptions with respect to utility revenues.

Adequate budgetary flexibility

Independence's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2016 of 6.8% of operating expenditures, or $5.0 million.

The city has been able build its reserves to its current adequate level after significant declines in previous years due to general fund transfers to cover debt service for its special project areas. The city has recently adopted a new reserve policy calling for an increase in its minimum fund balance policy from 5% to 16%, and we anticipate that its reserve level to increase in the coming years.

Very strong liquidity

In our opinion, Independence's liquidity is very strong, with total government available cash at 98.8% of total governmental fund expenditures and 7.6x governmental debt service in 2016. In our view, the city has exceptional access to external liquidity if necessary.

We consider the city's access to external liquidity exceptional, as it regularly issues a variety of debt. The city has issued appropriation-backed bonds and revenue bonds backed by the revenues of its power and light, water, sewer, and events center funds. We anticipate the city's liquidity position to remain very strong in the near term.

Very weak debt and contingent liability profile

In our view, Independence's debt and contingent liability profile is very weak. Total governmental fund debt service is 13.0% of total governmental fund expenditures, and net direct debt is 203.2% of total governmental fund revenue.

Independence has over $500 million debt outstanding, backed by an annual appropriation pledge plus other underlying revenue sources. A large amount of the city's debt has been issued to fund various economic development projects and was to be paid from tax increment revenues. 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. The city has shown the capacity to fund near-term shortfalls in pledged revenues from its general fund operations, though this presented budgetary challenges, led to thin budgetary flexibility, and elevated fixed charges. In recent years, the city has restructured components of its debt to lower annual debt service and aligned it with currently expected revenues; concurrently, the city was also able to replenish its general fund reserves. Amortization is below average, with 32% of debt retired within 10 years. Management has confirmed they have no contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. The city has plans to issue approximately $90 million in electric infrastructure facilities leasehold revenue bonds within the next three years.

In our opinion, a credit weakness is Independence's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Independence's combined required pension and actual OPEB contributions totaled 16.7% of total governmental fund expenditures in 2016. Of that amount, 11.2% represented required contributions to pension obligations, and 5.5% represented OPEB payments. The city made 80% of its annual required pension contribution in 2016. The funded ratio of the largest pension plan is 79.0%.

The city participates in the Missouri Local Government Employees Retirement System (LAGERS).The city's required pension contribution is its actuarially determined contribution (ADC), which is calculated at the state level, based on an actuary study. The city's net pension liability was $102 million in 2016, with a plan fiduciary net position as a percentage of the total pension liability of 79%, down from 88% the previous year.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Outlook

The stable outlook reflects the city's relatively stable finances in recent years, which has enable it to improve its current level of reserves. We do not anticipate changing the rating within the next two years. The city's participation in the broad and diverse Kansas City economy provides additional support to the rating.

Upside scenario

If the city's economic characteristics were to improve significantly, a higher rating is possible. In addition, if the city's debt and contingent liability profile were to substantially improve, the rating could be raised.

Downside scenario

The rating could be pressured if the city's budgetary performance were to weaken, leading to worsened budgetary flexibility.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2016 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of June 14, 2017)		
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 (cap imp projs) (Independence)		
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

Ratings Detail (As Of June 14, 2017) (cont.)		
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 rfdg rev bnds (crackerneck creek proj) (Independence) ser 2015C due 03/01/2035		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) infrastructure facs rfdg rev bnds (Independence) (Centerpoint Proj) ser 2016B due 04/01/2028		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) infrastructure facs rfdg rev bnds (Independence) (Drumm Farm Proj) ser 2016C due 12/01/2022		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) infrastructure facs rfdg rev bnds (Independence) (Events Ctr Proj) ser 2016A due 04/01/2038		
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) APPROP		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) APPROP		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) APPROP		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) APPROP		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) APPROP		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) APPROP		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) APPROP		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) APPROP		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) APPROP		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) APPROP		
Long Term Rating	A-/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria.

Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.