

Research

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\$17.685 mil infrastructure facs rfdg rev bnds (Independence) (Centerpoint Proj) ser 2016B due 04/01/2028

Long Term Rating A-/Stable New

US\$11.735 mil infrastructure facs rfdg rev bnds (Independence) (Events Ctr Proj) ser 2016A due 04/01/2038

Long Term Rating A-/Stable New

US\$2.305 mil infrastructure facs rfdg rev bnds (Independence) (Drumm Farm Proj) ser 2016C due 12/01/2022

Long Term Rating A-/Stable New

Rationale

S&P Global Ratings assigned its 'A-' long-term rating to the Missouri Development Finance Board's series 2016A infrastructure facilities refunding revenue bonds (City of Independence, Missouri—Events Center Project), 2016B infrastructure facilities refunding revenue bonds (City of Independence, Missouri—Centerpoint project), series 2016C infrastructure facilities refunding revenue bonds (City of Independence, Mo—Drumm Farm 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 2016A, B, and C 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. With regard to the series 2016A bonds, a pledge of community improvement district sales tax revenues and tax-increment financing revenues secure the bonds, but we rate the bonds based on the city's appropriation pledge, which we view as the stronger pledge. For the series 2016B and C bonds, a pledge of incremental tax revenues secure these bonds, but we rate the bonds based on the city's appropriation pledge, which we view as the stronger pledge. For the series 2016A, B, and C bonds, loan payments are due one business day preceding the April 1 and Oct. 1 debt service payment dates. A fully funded debt service reserve fund exists for the series 2016A and B bonds.

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 (EBI) at 79.7% and market value per capita of \$47,528, though that is advantageously gaining 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 a slight operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2015;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2015 at 7.5% of operating expenditures;
- Very strong liquidity, with total government available cash at 90.1% of total governmental fund expenditures and 6.1x governmental debt service, as well as access to external liquidity we consider exceptional;
- Very weak debt and contingent liability position, with debt service carrying charges at 14.8% of expenditures, net direct debt at 273.8% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
- Adequate institutional framework score.

Weak economy

We consider Independence's economy weak. The city, with an estimated population of 117,781, abuts Kansas City to the west and is the fourth-largest city in Missouri. It is in Jackson County in the Kansas City MSA, which we consider to be broad and diverse. It has a projected per capita EBI of 79.7% of the national level and per capita market value of \$47,528. Overall, market value fell by 0.8% over the past year to \$5.6 billion in 2015. The county unemployment rate was 5.9% in 2015.

Major employers in the city include the local school district (2,200 employees), small arms manufacturer Alliant Tech System (1,600), and Centerpoint Medical Center (1,400). Top ten taxpayers in the city represent 5.8% of assessed valuation. 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 sound assumptions when constructing its budget, based on historic, as well as external sources of information. It produces monthly financial reports for elected officials, which include budget-to-actual performance. The city has a formal fund balance policy to maintain unassigned reserves at 5%, to which it is now adhering; this level meets its cash-flow needs. It has a multiyear capital improvement plan. Long-term financial forecasting is currently mainly at the utility system level. The city has its own investment policy, which it recently updated, but currently only reports investment holdings and earnings in the audit. There is no formal debt management policy.

Adequate budgetary performance

Independence's budgetary performance is adequate, in our opinion. The city had slight surplus operating results in the general fund at 1.1% of expenditures, but a slight deficit result across all governmental funds at negative 1.0% in fiscal 2015.

The city's budgetary performance reflects adjustments made for recurring transfers. Independence was able to report a slight surplus of approximately \$813,000 in fiscal 2015 (year-end June 30) in the general fund due, in part, to it not filling certain open staff positions. In addition, it was able to spend less than anticipated on certain departmental projects.

For fiscal 2016, while the city had adopted a balanced general fund budget, it is currently projecting a deficit of 0.3% or \$220,000. The deficit largely reflects lower-than-anticipated payments in lieu of taxes (PILOTs) received from utilities

and lower telecommunications and franchise fee revenues. With regard to fiscal 2017, the city has adopted a balanced budget without the use of reserves. We expect budgetary performance will remain adequate.

Adequate budgetary flexibility

Independence's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2015 at 7.5% of operating expenditures, or \$5.5 million.

The assigned and committed portions of the fund balance are considered available, and we have factored them into our calculation of budget flexibility in fiscal 2015. From a policy perspective, however, management's goal, as per an ordinance adopted in 2013, was to replenish the unassigned portion of its fund balance 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 its special project areas.

The city's 2015 audited results reflect continued improvement in its available fund balance from 2% in 2013. Despite an expected slight use of reserves in fiscal 2016, we expect the city's budgetary flexibility to remain adequate.

Very strong liquidity

In our opinion, Independence's liquidity is very strong, with total government available cash at 90.1% of total governmental fund expenditures and 6.1x governmental debt service in 2015. In our view, the city has exceptional access to external liquidity if necessary.

The city regularly issues a variety of debt. It has issued appropriation-backed and revenue bonds backed by the revenues of its power and light, water, sewer, and events center funds.

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 14.8% of total governmental fund expenditures, and net direct debt is 273.8% 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 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, it was also able to replenish its general fund reserves. Although amortization has slowed and is below average, with about 40% retired in 10 years, we expect the restructuring will alleviate the pressure on the general fund in the longer term. Management has confirmed there are no contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

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 it. Independence's combined required pension and actual OPEB contributions totaled 15.5% of total governmental fund expenditures in 2015. Of that amount, 10.2% represented required contributions to

pension obligations, and 5.3% represented OPEB payments. The city made 78% of its annual required pension contribution in 2015. The funded ratio of the largest pension plan is 88%.

The city participates in the Missouri Local Government Employees Retirement System (LAGERS). Its required pension contribution is its actuarially determined contribution (ADC), which is calculated at the state level, based on an actuary study. The city does not have any other plans with respect to its pension funds, beyond making contributions in accordance with plan requirements.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Outlook

The stable outlook reflects, among other things, Independence's relatively stable finances in recent years, which has enabled 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 MSA economy provides additional support to the rating.

Upside scenario

If the city's economic characteristics were to improve significantly, a higher rating is possible. Alternatively, if its debt and contingent liability profile were to substantially improve, we could raise the rating.

Downside scenario

The rating could be pressured if the city's budgetary performance, and thus its budgetary flexibility were to worsen.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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

Ratings Detail (As Of July 11, 2016)

Independence ICR

Long Term Rating

A/Stable

Affirmed

Ratings Detail (As Of July 11, 2016) (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 (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 (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 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 fac rfdg rev bnds (Crackerneck Creek proj)

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) 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

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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

| Ratings Detail (As Of July 11, 2016) (cont.) | | |
|--|-----------|----------|
| 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 |

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