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Missouri Development Finance Board Independence; Appropriations; General Obligation; General Obligation Equivalent Security

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Credit Profile		
US$11.35 mil infrastructure facs rev bnds (Independence) (Events Ctr Proj) ser 2011A dtd 11/15/2011 due 04/01/2038		
Long Term Rating	A-/Stable	New
US$6.165 mil infrastructure facs rev bnds (Independence) (Hartman Heritage Proj) ser 2011B dtd 11/15/2011 due 04/01/2021		
Long Term Rating	A-/Stable	New
US$0.43 mil infrastructure facs rev bnds (Independence) (Centerpoint Proj) ser 2011C dtd 11/15/2011 due 04/01/2017		
Long Term Rating	A-/Stable	New
Independence ICR		
Long Term Rating	A/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'A-' long-term rating to Missouri Development Finance Board's (MDFB), series 2011A infrastructure facilities revenue bonds (Events Center project), series 2011B infrastructure facilities revenue bonds (Hartman Heritage project), and series 2011C infrastructure facilities revenue bonds (Centerpoint project), issued for Independence, reflecting 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. There will be no debt service reserve funded for either series of bonds, but debt service payment dates are scheduled to occur three months after the fiscal year end, providing what we consider ample cushion to accommodate a delayed budget passage.

At the same time, Standard & Poor's has affirmed its 'A' issuer credit rating (ICR) on Independence, reflecting our view of the city's general creditworthiness, including:

- A deep and stable local tax base, enhanced by participation in the diverse Kansas City, Mo. economic and employment base;
- Adequate wealth and income indicators;
- Good financial management practices that drive good general fund reserves; and
- Additional liquidity outside of the general fund that is available to support any potential cash flow pressures.

In our view, these strengths are tempered by the city's heavy reliance on economically sensitive revenue streams to fund both operations and debt service. Given ongoing stagnation in the local economy and underperforming economic development projects, the general fund is facing the pressure of having to support both operating costs. The city's moderately high debt burden and elevated fixed carrying charges are additional limiting constraints, as they limit expenditure flexibility and expose the city to potential further financial pressures.

Securing the series 2011A, 2011B, and 2011C bonds are payments made by the city to the finance board, pursuant to separate financing agreements between the city and the finance board. Payments pledged under the financial agreement governing the series 2011A bonds include Independence Events Center Community Improvement District sales tax revenues and, on a subordinate basis, certain tax increment financing (TIF) revenues collected within the community improvement district, subject to annual appropriation. Payments pledged under the financial agreement governing the series 2011B bonds include certain TIF revenues collected within the Hartman Heritage Centre Redevelopment Area, portions of which are subject to annual appropriation and portions of which are not subject to annual appropriation. Payments pledged under the financial agreement governing the series 2011C bonds include certain TIF revenues collected within the Centerpoint Redevelopment Area, portions of which are subject to annual appropriation and portions of which are not subject to annual appropriation. In addition, the city has pledged to annually appropriate monies for loan payments on each series of bonds from any legally available funds.

The 'A-' ratings reflect our expectation that the city will use any legally available revenues to meet its financing agreement obligations and are one notch below the 'A' ICR due to the annual appropriation risk and lack of a full-faith-and-credit unlimited ad valorem tax pledge. Standard & Poor's has affirmed its 'A-' long-term and underlying (SPUR) ratings on the city's existing appropriation-backed bonds.

Management intends to use series 2011A and 2011B bond proceeds to advance refund its outstanding series 2008H and 2003 bonds, respectively. Both refundings are for interest cost savings, with savings scheduled through the life of the bonds. Management intend to use series 2011C bond proceeds to continue funding improvements within Centerpoint Redevelopment Area.

Independence is in western Missouri's Jackson County, east of Kansas City. The city, the state's fourth-largest city, had a population of 116,830 in 2010, up by 3.1% since the 2000 U.S. Census. Given its location, city residents benefit from a wide variety of local employment opportunities, as well as opportunities throughout the broader and more-diverse Kansas City economic center. Unemployment in Independence, however, has typically remained slightly above average, at 10.2% in 2010, compared to Kansas City MSA (9.1%), state (9.5%), and national (9.6%) levels. Income levels, measured as median household effective buying income, are adequate, in our view, at 95% and 87% of state and national levels, respectively. Beginning with the 2009 reassessment year, assessed valuation has since decreased by 8.9% to $1.29 billion in 2011. Estimated full market value is $5.67 billion, or what we consider adequate at $48,497 per capita. The city has developed into a regional retail center for the greater Kansas City metropolitan area, but growth has been stymied in recent years due to the recession. Retail sales per capita amount to an above-average 113% of national levels.

Major components of the general fund budget include sales and use taxes (22%), payments in lieu of taxes (from power and light, water, and sanitary sewer operations, 22%), and utility franchise fees (21%). Along with a 1% general sales tax, the city also levies 0.25% storm water improvement, 0.5% street improvement, 0.25% park improvement, 0.125% police department public safety, and 0.25% fire protection sales taxes. Following a period of relative stability and slight growth from 2001 to 2008, total sales taxes have since decreased by 1.7%, 3.5%, and 0.3%, respectively, in each of the past three years. Budget projections indicate a slight uptick in sales tax revenues of 2.7% for 2012.

The city's financial operations have been pressured in recent years, as a soft revenue climate has failed to match increasing expenditures. More recently, the general fund has been burdened by the need to support debt service on certain TIF- and appropriation-secured obligations, specifically those relating to the Crackerneck Creek

Redevelopment Area. In its two most recently audited fiscal years, the city reported drawdowns of $2.3 million and $1.9 million, respectively, bringing the June 30, 2010, general fund balance to $5.2 million, of which $4.4 million, or a good 6.3% of expenditures and transfers, was unreserved. The city entered fiscal 2011 with a balanced budget, aided by delayed capital expenditures and the maintenance of staffing vacancies, and concluded the year with an unaudited $365,000 drawdown. The general fund made an unscheduled $3.6 million transfer out during 2011 to fund debt service on the Crackerneck Creek Redevelopment Area bonds, because intended TIF revenues from the project area fell short of debt service costs; however, most of this was offset by unbudgeted telecommunication settlement fees. The city's unaudited June 30, 2011, unreserved fund balance totals $4 million, or 5.4% of expenditures and transfers. While the general fund cash balance only amounted to $1.1 million (six days' cash on hand) to close fiscal 2011, total governmental funds and enterprise funds cash balances were $22.1 million and $14.6 million, respectively.

Given that TIF revenues intended to pay the Crackerneck Creek Redevelopment Area bonds are far short of recently ramped up debt service, the city has adjusted its general fund budget to be able to absorb this shortfall. The city adopted a balanced budget for fiscal 2012, which included $4.1 million in debt service transfers. To balance the budget, the city introduced furloughs, staff reductions (both through layoffs and attrition), and adjustments to insurance premiums and retirement contributions. It is our understanding that the city is prepared to budget debt service into the general fund on a long-term basis as it awaits further developments in the Crackerneck Creek Redevelopment Area. While most of the other revenue streams backing appropriation-secured obligations are self-supporting, the general fund could face further pressure in the future should additional debt service appropriations be required.

Standard & Poor's considers Independence's financial management practices "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Highlights include formalized long-term financial planning, long-term capital improvement plans, monthly financial reporting, and reserve policies.

Although the city does not currently have any general obligation debt outstanding, it has issued a number of bonds, all backed by its annual appropriation pledge, for redevelopment projects. The overall debt burden, including overlapping debt but excluding bonds supported by utility revenues, is moderately high, in our opinion, at 7.7% of estimated market value, yet moderate at $3,725 on per capita basis. In fiscal 2010, debt service carrying charges were low at 4.9% of total governmental funds expenditures, excluding capital outlays. Total fixed charges, after including pension and other postemployment benefit (OPEB), are elevated, however, at 18%. Debt service amortization is average, with 47% of principal scheduled to mature in 10 years and 82% in 20.

Additional debt plans amount to approximately $54 million, including $5.5 million backed by the water system and $48.6 million backed by the electric system. Pursuant to a recent consent decree between the city and the U.S. Environmental Protection Agency, the city has agreed to fund improvements to its sanitary sewer system at an estimated cost of $35 million to $39 million. The improvement must be completed by 2015. Overall, the city expects to issue bonds, in annual installments through 2020, to fund approximately $91 million in improvements to the sewer utility. The city expects the additional debt to carry its appropriation pledge, but it would be payable from net utility revenues. Net utility revenues have been sufficient to cover related debt.

The city participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system and also funds retiree health care benefits. The LAGERS plan has a funded ratio of 62% and the OPEB plan's funded ratio is 0%, as the city is currently funding the liability on a pay-as-you-go financing basis.

Outlook

The stable outlook reflects Standard & Poor's expectation that city officials will continue to closely monitor financial operations to ensure maintenance of at least adequate general fund reserves. The outlook is strengthened by management's recently demonstrated willingness and capacity to implement budget adjustments in light of adverse conditions, which we expect to continue. However, should weaknesses in either operating revenues or pledged revenues for debt service continue to persist over an extended period of time, which would likely apply prolonged pressure on the general fund's ability to support both operations and debt service, the rating could be lowered. We do not expect the rating to change during the outlook horizon, however, because the city has shown an ability to absorb debt service shortfalls into its budget, and we expect that it will continue to do so without a significant deterioration of reserves. The city's deep tax base and accessibility to the Kansas City metropolitan area, which has spurred development over the past several years and generally provided economic stability, supports the outlook.

Debt And Economic Redevelopment Areas

The city has more than $402 million in direct debt outstanding, all of which is backed by an annual appropriation pledge plus another underlying revenue source. Pledged TIF revenues account for the largest share of appropriation debt (47%), with utility revenues (28%) and sales taxes (25%) 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 revenues are falling short of or are just meeting expectations. While the general fund currently has 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 support these payments.

The largest economic development projects, in terms of outstanding principal, are the Crackerneck Creek project ($88.2 million, TIF revenues), Events Center ($85 million, sales taxes), Centerpoint project ($38.4 million, TIF revenues), Eastland Center project ($34.5 million, TIF revenues), and Hartman Heritage Centre project ($16 million, TIF revenues).

The Crackerneck Creek project called for the development and construction of a 450,000-square-foot commercial retail center, anchored by a Bass Pro store. The Bass Pro store opened in March 2008, but the only other businesses to open are a Hobby Lobby, Mardel's (a Christian-oriented merchandise retailer), and a Cheddar's Casual Café restaurant. Due to project area revenue shortfalls, the general fund subsidized $3.6 million in debt service costs in fiscal 2011, with another $4.1 million budgeted for fiscal 2012. The city expects to continue funding project area revenue shortfalls through the general fund.

The Eastland Center project, Centerpoint project, and Hartman Heritage Center are each located within the Events Center Community Improvement District project area. To date, Events Center debt service has been funded through capitalized interest and surplus allocation reserves, and community improvement district revenues are projected to begin covering annual debt service payments (by more than 1x) in 2012, which amount to $5.4 million. The district sales tax is set to increase to 0.75% beginning in fiscal 2012, from the current 0.5% rate, and the rate can be increased to 1% without requiring voter approval.

The Independence Events Center lies within the Events Center Community Improvement District and Eastland Center project. The facility is capable of hosting sporting, civic, and entertainment events and contains approximately 162,000 square feet of space on two levels. Current tenants include a minor league hockey team and indoor soccer team.

The Events Center anchors the Eastland Center project, along with a Costco and Lowe's Cos. Inc. store. Eastland Center TIF revenues have been covering annual debt service by more than 1.3x in recent years. The Centerpoint project is anchored by a hospital, ambulatory surgery center, and medical office building and is generating revenues sufficient to cover debt service by more than 1.1x. The Hartman Heritage project consists of a hotel and other retail establishments. TIF revenues have covered annual debt service by 0.9x the past two years, but there are ample accumulated reserves in the allocation fund to cover these shortfalls.

Related Criteria And Research

USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Ratings Detail (As Of October 24, 2011)		
Missouri Dev Fin Brd, Missouri		
Independence, Missouri		
Missouri Dev Fin Brd (Independence)		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) infrastructure facs rev		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds ser 2006D (Pks Facs Proj)		
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 (Centerpoint Project)		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) infrastructure fac leasehold rev bnds (Elec Sys 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		

Ratings Detail (As Of October 24, 2011) **(cont.)**		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd (Independence) taxable infrastructure facs rev bnds ser 2008		
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) infrastructure facs rev bnds(Aquatics Facs Proj)		
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
Missouri Dev Fin Brd (Independence) (Public Safety Proj) infrastructure facs rev bnds ser 2005A		
Long Term Rating	A-/Stable	Affirmed
Missouri Dev Fin Brd infras facs rev bnds (City of Independence MO Hartman Heritage Ctr Proj Phase II) ser 2003 dtd 9/1/03 due 4/1/05-13 19-21		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Missouri Dev Fin Brd (Independence) infrastructure facs rev bnds ser 2004 (Wtr Sys Imp Projs)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.