

RatingsDirect®

Summary:

O'Fallon, Missouri; Appropriations; General Obligation

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Credit Profile

US\$20.7 mil GO bnds ser 2017 due 03/01/2037

<i>Long Term Rating</i>	AA/Stable	New
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US\$19.535 mil spl oblig rfdg and imp bnds ser 2017 due 11/01/2036

<i>Long Term Rating</i>	AA-/Stable	New
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O'Fallon ICR

<i>Long Term Rating</i>	AA/Stable	Affirmed
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O'Fallon APPROP

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AA' long-term rating to the city of O'Fallon, Mo.'s series 2017 general obligation (GO) improvement bonds. At the same time, S&P Global Ratings assigned and its 'AA-' long-term rating to the city's series 2017 special obligation refunding and improvement bonds. At the same time, S&P Global Ratings affirmed its 'AA' rating on the city's existing GO debt, as well as its 'AA-' long-term rating on the city's outstanding special obligation debt. The outlook is stable.

The series 2017 GO bonds are secured by a GO pledge of revenues of the city payable from ad valorem taxes without limitation as to rate or amount. These bonds will be used to fund park and recreation improvements. The series 2017 special obligation bonds are secured by the city's covenant to request annual budget appropriations from any legally available funds and revenues in an amount to pay debt service. There are no leases or assets securing the bonds. Management intends to use the series 2017 special obligation bond proceeds to refund its series 2009A certificates of participation for interest cost savings as well as to water and sewer fund improvements and for street projects. We rate the series 2017 special obligation bonds and the city's other special obligation bonds one notch below the city's GO bond rating, reflecting annual appropriation risk.

The ratings reflect our view of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance, with an operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 51% of operating expenditures;
- Very strong liquidity, with total government available cash at 44.5% of total governmental fund expenditures and 3.0x governmental debt service, and access to external liquidity we consider strong;

- Very weak debt and contingent liability position, with debt service carrying charges at 14.9% of expenditures and net direct debt that is 227.0% of total governmental fund revenue; and
- Adequate institutional framework score.

Strong economy

We consider O'Fallon's economy strong. The city, with an estimated population of 86,638, is located in St. Charles County in the St. Louis, MO-IL MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 120% of the national level and per capita market value of \$85,902. Overall, the city's market value grew by 2.2% over the past year to \$7.4 billion in 2016. The county unemployment rate was 3.9% in 2015.

O'Fallon is situated along Interstate 70 in St. Charles County, approximately 30 miles west of downtown St. Louis. In addition to a wide range of easily accessible employment opportunities throughout the St. Louis metropolitan area, including Citigroup/CitiMortgage (3,800 employees), MasterCard International (2,530), and Fort Zumwalt School District (2,100).

We understand that in January 2017, Citigroup announced plans to exit the mortgage servicing business and to sell its CitiMortgage subsidiary, which is based in the city. The sale is expected to close at the end of fiscal 2018, and Citigroup has not indicated how many positions in the city will be affected by the decision. The city's recent market value growth in 2016 is largely attributable to new construction growth. We do not anticipate the city's strong economy to weaken in the near term.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Management uses five years of historical trend analysis for revenue and two years for expenditures, along with current economic considerations, as it creates its annual budget through a zero-based budgeting technique. Throughout the year, management updates the city council on financial performance with monthly budget-to-actual reports. The city plans its capital spending according to a six-year capital improvement plan (CIP). It does not maintain a multiple year financial forecast. It approved a formal fund balance policy to maintain an unrestricted general fund equal to at least 40% of expenditures for cash-flow needs and contingencies. Investment reports reflecting holdings and earnings are provided to city council quarterly and the city maintains a debt management policy that adheres to statutory limitations.

Adequate budgetary performance

O'Fallon's budgetary performance is adequate in our opinion. The city had surplus operating results in the general fund of 3.0% of expenditures, but a slight deficit result across all governmental funds of negative 1.0% in fiscal 2016.

Our analysis of the city's budgetary performance reflects our view of the city's adjustment of one-time expenditures and recurring transfers involving the general fund. In fiscal 2016, the city had a surplus in the general fund of \$864,000 after adjusting for one-time costs associated with the construction of a new police station. For fiscal 2017, the city expects to report an operational surplus in the general fund after adjusting for a planned capital transfer for street improvements. We anticipate that the city's budgetary performance will remain at least adequate in the near term.

Very strong budgetary flexibility

O'Fallon's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 51% of operating expenditures, or \$15.0 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

As indicated above, the city has a fund balance policy of 40% of general fund expenditures. While the city will likely use some reserves for its capital projects in fiscal 2017, we do not anticipate its available fund balance to fall below the reserve policy, and we further anticipate that reserves will remain very strong.

Very strong liquidity

In our opinion, O'Fallon's liquidity is very strong, with total government available cash at 44.5% of total governmental fund expenditures and 3.0x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

After adjusting for cash and cash equivalents that are considered unavailable, the city has approximately \$26.2 million in liquidity. We consider the city's access to external liquidity to be strong, as it has regularly issued GO and special obligation debt in recent years. We do not anticipate the city's very strong liquidity to weaken in the next few years.

Very weak debt and contingent liability profile

In our view, O'Fallon's debt and contingent liability profile is very weak. Total governmental fund debt service is 14.9% of total governmental fund expenditures, and net direct debt is 227.0% of total governmental fund revenue.

The city may issue approximately \$30 million in debt for its water and sewer fund within the next two years. Apart from this, the city does not have any other significant new money debt plans.

O'Fallon's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.1% of total governmental fund expenditures in 2015. The city made 94% of its annual required pension contribution in 2015.

The city participates in the Missouri Local Government Employees Retirement System, a multiple-employer defined-benefit pension plan. The city has adopted Governmental Accounting Standards Board (GASB) Statement No. 68, relating to pensions. As of 2015, the city's plan fiduciary net position as a percent of the total pension liability was 113%, with a net pension asset of \$6.7 million. The city's OPEB liability is limited to an implicit rate subsidy.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Outlook

The stable outlook reflects our anticipation that the city's rating will not change over the next two years, reflecting the city's very strong budgetary flexibility and liquidity. The city's participation in the broad and diverse St. Louis, Mo., MSA provides additional rating support to the rating.

Upside scenario

Should the city's economic metrics were to improve significantly and if its debt and contingent liability profile

improves, a higher rating is possible.

Downside scenario

We may lower the rating if the city experiences weakened budgetary performance and, leading to a deterioration in its budgetary flexibility deteriorates.

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
- 2016 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 22, 2017)		
O'Fallon spl oblig		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
O'Fallon spl oblig bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
O'Fallon spl oblig bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
O'Fallon spl oblig rfdg & imp bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
O'Fallon GO rfdg bnds & imp bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed

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