

RatingsDirect®

Summary:

Warrensburg, Missouri; Appropriations; General Obligation

Primary Credit Analyst:

Jessica Akey, Chicago 312-233-7068; jessica.akey@spglobal.com

Secondary Contact:

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

Table Of Contents

Rationale

Outlook

Related Research

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Credit Profile

US\$7.825 mil rfdg COPs ser 2018 due 09/01/2033

<i>Long Term Rating</i>	A+/Stable	New
Warrensburg ICR		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Warrensburg APPROP		
<i>Long Term Rating</i>	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A+' rating to Warrensburg, Mo.'s series 2017 refunding certificates of participation. At the same time, S&P Global Ratings affirmed its 'AA-' rating on its general obligation (GO) bonds and its 'A+' long-term rating and underlying rating (SPUR) on the city's various lease-backed debt and limited GO bonds. The outlook is stable.

Bond proceeds will fund refund the series 2009 and 2010 certificates of participation for interest cost savings.

For the series 2017 and other lease-backed debt, Warrensburg has pledged its semiannual lease rental payments, which are subject to annual appropriation pursuant to the lease agreement. Because of the appropriation risk, we rate the debt one notch lower than the city's GO debt.

Securing the limited GO bonds are the special assessments levied against the real property within the Hawthorne Development Project Neighborhood Improvement District and, if needed, all legally available funds and current revenue. Because of the security's limited nature, we rate the debt one notch lower than the city's GO debt.

Securing the GO bonds are ad valorem taxes that will be levied without limitation as to rate or amount upon all the taxable tangible property.

The 'AA-' rating reflects our assessment of the following factors for Warrensburg, including its:

- Weak economy, with projected per capita effective buying income at 70.8% and market value per capita of \$51,320, that is gaining advantage from a local stabilizing institutional influence;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 68% of operating expenditures;
- Very strong liquidity, with total government available cash at 53.2% of total governmental fund expenditures and

3.8x governmental debt service, and access to external liquidity we consider strong;

- Adequate debt and contingent liability position, with debt service carrying charges at 13.9% of expenditures and net direct debt that is 155.5% of total governmental fund revenue, as well as rapid amortization, with 97.1% of debt to be retired in 10 years; and
- Adequate institutional framework score.

Weak economy

We consider Warrensburg's economy weak. The city, with an estimated population of 19,700, is located in Johnson County. The city benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 70.8% of the national level and per capita market value of \$51,320. Overall, the city's market value was stable over the past year at \$1.0 billion in 2018. The county unemployment rate was 4.9% in 2016.

Warrensburg is the county seat of Johnson County and is located along U.S. Highway 50, approximately 50 miles southeast of Kansas City limits. The University of Central Missouri and Whiteman Air Force Base anchor the economy, and we view these as stabilizing institutions. The university has about 14,000 students and 486 faculty members, and there are 3,000 families stationed at the air force base. There are five major industrial employers, a 200 acre industrial park, and a 150 acre industrial park that the county owns. Management reports the construction of a Fairfield Inn was recently completed; a Dollar Tree distribution center will open in June 2018, adding over 300 new jobs; and a Holiday Inn is under construction.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Warrensburg uses historical trends and communicates with major sales taxpayers and the Missouri municipal league to project revenues and expenditures for its annual budget. It provides the council with monthly budget-to-actual reports and can amend the budget as needed. The annual budget includes the five-year financial forecast. The city has a detailed, five-year capital improvement plan that it updates annually and includes timing and funding sources. It has a formal investment management policy and reports holdings to the council monthly. Warrensburg has a formal debt management policy that restricts debt to 20% of assessed tangible property, cannot use debt for operating or normal maintenance expenses and all debt must be repaid within the expected life of financed project. The city has a formal reserve policy that calls for reserves at 22% of expenditures.

Strong budgetary performance

Warrensburg's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 6.0% of expenditures, and slight surplus results across all governmental funds of 1.3% in fiscal 2016. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2016 results in the near term.

Warrensburg's fiscal 2016 (year ended Sept. 30) general fund surplus was due to higher-than-expected sales tax collections and low-than-budgeted expense (some moved into fiscal 2017). The city has reoccurring transfers in from the sewer fund, which we added to total governmental fund revenues.

Fiscal 2017 estimates include a \$232,000 deficit in the general fund and a positive result across all governmental funds. This is due to slower sales tax growth than in previous years. Management indicated that increased wages, coupled with lower sales tax revenues, could result in Warrensburg cutting expenses to maintain balanced budgets. Therefore, we believe the city's budgetary performance will worsen compared with the fiscal 2016 audit, but likely remain strong.

The fiscal 2018 budget calls for break-even results in the general fund (excluding nonrecurring expenditures).

In fiscal 2017 sales tax made up 54% of revenues, followed by franchise fees at 18% and property taxes and charges for services, at 9% each.

Very strong budgetary flexibility

Warrensburg's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 68% of operating expenditures, or \$6.0 million. We expect the available fund balance to decline slightly but remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

We expect the city's budgetary flexibility to remain very strong.

Very strong liquidity

In our opinion, Warrensburg's liquidity is very strong, with total government available cash at 53.2% of total governmental fund expenditures and 3.8x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

We consider the city's access to liquidity strong because it has issued bonds in recent years.

Warrensburg has two capital lease purchase agreements with U.S. Bank N.A. for \$394,000 (funded through the general fund; 2022 final maturity), and PNC Bank N.A. for \$542,000 (funded through the capital improvement fund; 2021 final maturity).

We expect the city's liquidity position to remain very strong in the near term.

Adequate debt and contingent liability profile

In our view, Warrensburg's debt and contingent liability profile is adequate. Total governmental fund debt service is 13.9% of total governmental fund expenditures, and net direct debt is 155.5% of total governmental fund revenue. Approximately 97.1% of the direct debt is to be repaid within 10 years, which is in our view a positive credit factor.

The city does not have additional debt planned within the next two years. Management reports that any plans would likely need voter approval.

Warrensburg's pension contributions totaled 2.2% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution that year.

Warrensburg participates in the Missouri Local Government Employees' Retirement System, an agent multiple-employer public employee retirement system. The city makes the annual state-required contribution. Its portion of the plan had a net asset of \$2.2 million and the plan fiduciary position of 110.7% of the total pension liability as of June 30, 2016. It has an implicit liability for its retirees' health benefits. The retiree pays the full premium.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Outlook

The stable outlook reflects our view of Warrensburg's very strong budgetary flexibility and liquidity supported by strong management conditions. We do not expect to raise or lower the rating in the two-year outlook period.

Upside scenario

We could raise the rating if the city's wealth and income levels improved to a level comparable to higher rated peers, assuming other credit factors remain the same.

Downside scenario

If the city's budgetary performance worsens, leading to significant deterioration in budgetary flexibility, we could lower the rating.

Related Research

- 2017 Update Of Institutional Framework For U.S. Local Governments
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of November 13, 2017)

Warrensburg GO bnds ser 2017 due 03/01/2027		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Warrensburg APPROP		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Warrensburg GO		
<i>Long Term Rating</i>	A+/Stable	Affirmed

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