

CREDIT OPINION

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 Rate this Research

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Kearney (City of) MO

Update following GOULT upgrade to Aa3

Summary

The credit profile of [Kearney, MO](#) (GOULT Aa3) benefits from a trend of stable financial operations with above-average reserves and liquidity, a growing tax base with proximity to [Kansas City, MO](#) (Aa2 negative), above-average resident income levels, and a low pension burden. The profile is somewhat constrained by the city's exposure to economically sensitive revenues and an elevated post-issuance debt burden that will remain manageable given enterprise support.

On June 27, 2018 we upgraded the city's GOULT rating to Aa3 from A1 and the rating on appropriation debt for more essential purposes to A1 from A2. We also assigned an A1 rating to the city's Certificates of Participation, Series 2018.

Credit strengths

- » Trend of stable financial operations with above average reserves and liquidity
- » Growing tax base with proximity to Kansas City, MO
- » Above average resident income levels
- » Low pension burden

Credit challenges

- » Exposure to economically sensitive revenues
- » Above average debt burden post-issuance

Rating outlook

Moody's does not typically assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Significant tax base expansion
- » Mitigation of debt burden

THIS REPORT WAS REPUBLISHED ON 06/29/2018 TO CORRECT THE EXPECTED ISSUANCE DATE OF THE FIRST TRANCHE OF BONDS FOR THE INTERCHANGE PROJECT.

Factors that could lead to a downgrade

- » Erosion of reserves or liquidity
- » Tax base contraction
- » Additional leveraging of the tax base through debt or pension expansion absent corresponding assessed value growth

Key indicators

Exhibit 1

Kearney (City of) MO	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$596,759	\$602,691	\$627,935	\$673,521	\$682,158
Population	8,637	8,845	9,039	9,259	9,259
Full Value Per Capita	\$69,093	\$68,139	\$69,469	\$72,742	\$73,675
Median Family Income (% of USMedian)	125.8%	121.4%	119.7%	117.5%	117.5%
Finances					
Operating Revenue (\$000)	\$5,225	\$5,218	\$9,950	\$6,165	\$6,533
Fund Balance (\$000)	\$2,368	\$2,367	\$2,894	\$2,908	\$2,940
Cash Balance (\$000)	\$2,534	\$2,572	\$3,172	\$3,751	\$4,061
Fund Balance as a % of Revenues	45.3%	45.4%	29.1%	47.2%	45.0%
Cash Balance as a % of Revenues	48.5%	49.3%	31.9%	60.8%	62.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$6,925	\$5,888	\$10,374	\$9,779	\$9,610
3-Year Average of Moody's ANPL (\$000)	N/A	\$1,921	\$1,901	\$1,705	\$2,210
Net Direct Debt / Full Value (%)	1.2%	1.0%	1.7%	1.5%	1.4%
Net Direct Debt / Operating Revenues (x)	1.3x	1.1x	1.0x	1.6x	1.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.3%	0.3%	0.3%	0.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.4x	0.2x	0.3x	0.3x

Source: Moody's Investors Service; Kearney's audited financial statements fiscal years 2013-17

Profile

The City of Kearney is located 25 miles northeast of downtown Kansas City, MO. The thirteen square mile city was home to approximately 9,200 residents in 2016.

Detailed credit considerations

Economy and tax base: growing tax base with proximity to Kansas City

Kearney's tax base will remain stable with modest expansion given ongoing commercial, retail, and residential development. Commercial development continues at the Shoppes at Kearney, a 38-acre development that will include retail pad sites, restaurants, and a newly approved 78 room Holiday Inn Express. Additionally, with the city's commutable distance to Kansas City, single family home construction is back to its pre-recession levels, with more than 100 single family permits being issued annually. The city's population continues to expand as well with an increase of roughly 10% since 2010.

Over the past five years, the city's tax base expanded 3.2% on average, including 8.5% in fiscal 2018 to \$740 million. Resident income levels are above-average with a median family income of 117.5% of the US. The March 2018 unemployment rate of 3.2% in [Clay County](#) (Aa2) compares favorably to both the state (3.8%) and national (4.1%) rates for the same period.

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Financial operations and reserves: trend of stable financial operations with above-average reserves and liquidity

The city will continue its trend of stable financial operations over the near term given ongoing development, conservative budgeting practices, and recently enacted utility and sales tax rate increases. The city posted an \$82,000 general fund surplus in fiscal 2017, primarily due to increased property tax revenues. The surplus pushed general fund reserves to \$2.3 million, representing a healthy 41.7% of revenues. Fiscal 2017 revenues were primarily derived from property taxes (55.9%) and sales taxes (28.8%). The city's fiscal year ends March 31 and management reports an unaudited surplus of approximately \$270,000 in the general fund due to valuation growth and healthy sales tax collections.

On an operating basis, inclusive of debt service and special revenue funds, the city posted a \$79,000 surplus in fiscal 2017 and increased available fund balance to \$2.9 million, or 45% of operating revenues.

On April 3, 2018 voters approved a 1 cent sales tax that will provide resources to build a second I-35 interchange. The bonds for the project will be general obligation bonds when issued but the city intends to support the issuance with revenues from the sales tax. The tax begins October 1, 2018 and has a 20-year sunset. Officials do not expect to issue the first tranche of bonds for the project until August 2018.

LIQUIDITY

The city's operating liquidity was \$4.1 million at the close of fiscal 2017, or a strong 62.2% of operating revenues. The water and sewer utility closed the year with \$1.5 million in liquidity.

Debt and pensions: Above-average debt burden post-issuance to remain manageable given enterprise support

Post-issuance, the city's debt burden will increase to an above-average 2.9% of full value, but will remain manageable given anticipated enterprise support. The city intends to satisfy the majority of debt service on the current issuance with excess utility revenues as the bulk of the projects are related to improvements of the city's water and wastewater systems. The utility generated net revenues of approximately \$796,000 in fiscal 2017. From fiscal 2019 through 2026, the average principal payment on the COPs is roughly \$123,000, well within the capability of the utility. Additionally, the utility completed a rate study in June 2017 leading to an increase of 5% and 20% for water and sewer services respectively, in January 2018.

The city expects to issue approximately \$3.5 million in GO debt in August 2018 and another \$21 million in the spring of 2020 to complete the second I-35 interchange. The bonds will be GO but will be supported by the newly approved 1 cent sales tax. The issuance is anticipated to increase the city's debt burden to a high 6% of fiscal 2018 values. Additional leveraging of the tax base could weaken the city's credit profile.

DEBT STRUCTURE

All of the city's debt is fixed rate and matures over the long-term (final maturity in fiscal 2034). Principal amortization of GO debt is above-average with 88.6% of principal repaid within ten years.

DEBT-RELATED DERIVATIVES

The city is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The city participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer statewide defined benefit pension plan. In fiscal 2017, the city contributed \$171,458 towards the plan, its actuarially determined contribution as established by LAGERS.

Moody's has allocated liabilities of the state cost-sharing plan in proportion to the city's contributions to the plan for analytic purposes. Moody's three-year average adjusted combined net pension liability (ANPL) for the city as of fiscal 2017, under our methodology for adjusting reported pension data, is \$3.2 million. In the three years through fiscal 2017, the city's ANPL has averaged 0.3 times annual operating revenues and 0.3% of full valuation. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities and are not intended to replace the city's reported contribution information, or the reported liability information of the statewide cost-sharing plans.

Fixed costs were approximately \$985,000 in fiscal 2017, representing a manageable 15% of operating revenues. The city does not offer other post employment benefits (OPEB).

Management and governance: revenue raising flexibility limited by Hancock Amendment

Kearney is governed by a Mayor and a four-member Board of Alderman. The Mayor is elected every two years to a four year term and two Alderman are elected annually to two year staggered terms. The City Administrator is appointed by the Mayor with the approval of a majority of the Board and is responsible for the day to day operations of the city.

Missouri Cities have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources are subject to a cap via the Hancock Amendment which can be overridden with voter approval only. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, Missouri has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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