S&P Global
Ratings

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Summary:

Liberty, Missouri; Appropriations; General Obligation

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Credit Profile		
US$16.01 mil spl oblig bnds ser 2018 due 05/01/2038		
Long Term Rating	A+/Stable	New
Liberty spl oblig bnds ser 2015 due 03/01/2035		
Long Term Rating	A+/Stable	Downgraded
Liberty GO		
Long Term Rating	AA-/Stable	Downgraded
Liberty APPROP		
Long Term Rating	A+/Stable	Downgraded

Rationale

S&P Global Ratings lowered its long-term rating on the city of Liberty, Mo.'s existing general obligation (GO) debt one notch to 'AA-' from 'AA'. At the same time, S&P Global Ratings lowered its rating one notch to 'A+' from 'AA-' on the city's existing special obligation bonds. Finally, we assigned our 'A+' rating to the city's series 2018 special obligation bonds, based on the application of our "Issue Credit Ratings Linked to U.S. Public Finance Obligor's Creditworthiness" criteria, published Jan. 22, 2018, on RatingsDirect. The outlook is stable.

The downgrade reflects our view of the city's trend of deficits during the last three fiscal years, which has led to steady declines in general fund reserves, which, in our view, have weakened the city's overall financial position. These factors, coupled with its continued very weak debt and contingent liability profile, support the one-notch downgrade.

The series 2018 special obligation bonds and existing special obligation bonds are considered special obligations of the city payable solely from amounts appropriated each fiscal year by the city. We rate these bonds one notch lower than the city's general creditworthiness (as reflected in the GO rating) to reflect the appropriation risk associated with the annual payment. We view these bonds as having a strong relationship to the obligor, and these obligations provide funding for projects we believe are significantly important to the obligor. The city pledges to annually appropriate from its operating revenue, and has a long track record of appropriating for similar obligations. In our opinion, there is no unusual political, timing, or administrative risk related to the debt payment.

Proceeds from the series 2018 special obligation bonds will be used for capital projects within the city. The city's existing GO bonds are secured by the city's unlimited tax GO pledge.

While the city has experienced relatively small deficits in its general fund recently, this negative trend has led to declining reserves, which have fallen to levels that we believe are more consistent with a 'AA-' GO rating, when coupled with the city's other credit factors. In addition, we view the city's very weak debt and contingent liability profile as limiting the overall strength of its general creditworthiness. Despite this, the city's strong management, combined with city's participation in the broad and diverse Kansas City MO-KS MSA are positive factors which we believe will contribute to credit stability going forward. Moreover, we believe that its April 2018 enactment of a new use tax will provide an additional revenue source that may contribute to future operational flexibility.

The rating reflects our view of the city's:

- Adequate 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 methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2017, which closed with operating deficits in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance that we expect will improve in the near term from its fiscal 2017 level of 14.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 53.2% of total governmental fund expenditures and 2.3x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability position, with debt service carrying charges at 22.8% of expenditures and net direct debt that is 316.2% of total governmental fund revenue; and
- Adequate institutional framework score.

Adequate economy

We consider Liberty's economy adequate. The city, with an estimated population of 30,888, is located in Clay County in the Kansas City, MO-KS MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 106.2% of the national level and per capita market value of $72,360. Overall, the city's market value grew by 0.6% over the past year to $2.2 billion in 2018. The county unemployment rate was 3.6% in 2017.

We have revised our view of the city's economy from strong to adequate based on a decline in its projected per capita EBI from 118% to 106.2%. The city is a primarily residential community approximately 15 miles northeast of downtown Kansas City and serves as the seat of Clay County. Top city employers include Liberty Hospital (1,600), Liberty School District (1,480), and Hallmark Cards, Inc. (820). The city's tax base is very diverse, in our view, with the city's 10 largest taxpayers representing 6.3% of assessed valuation (AV). The city's tax base is primarily comprised of residential properties (57.1% of AV) followed by commercial properties (24.7%). The city has experienced steady growth in recent years, which is primarily attributable to commercial and residential development and improvements in existing real estate values. We expect the city's economy to remain at least adequate during the next few years.

Strong management

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

Highlights to the FMA include the city's:

- Strong revenue and expenditure assumptions for annual budgeting;
- Monthly reporting to the finance committee (including the mayor and two council members) on budget-to-actual performance, with monthly reporting on sales tax performance to the entire council;
- Long-term financial planning that includes detailed multiyear projections extending at least five years out for major funds and are updated several times a year;
- Investment policy with monthly reporting to the council on investment performance; and
- Formal reserve policy requiring a general fund balance of between 18% and 22% of revenues, with which it is in compliance.

The city does not have a debt management policy.

Adequate budgetary performance

Liberty's budgetary performance is adequate in our opinion. The city had operating deficits of negative 1.7% of expenditures in the general fund and of negative 6.3% across all governmental funds in fiscal 2017. Our assessment accounts for the fact that we expect budgetary results could improve from 2017 results in the near term.

We have adjusted general fund revenue to account for routine transfers, one-time revenue, and one-time transfers in and expenditures to account for the spending of bond and lease proceeds. We have similarly adjusted total governmental funds revenue to account for one-time revenue and expenditures to reflect the spending of bond proceeds.

For fiscal 2017 (year ended Dec. 31), on an adjusted basis, the city reported a $296,000 general fund deficit, after transfers. Contributing to this result was a decline in franchise fees and court fees, which was partly offset by growth in sales tax revenue. Across all governmental funds, the city's primary revenue source is sales taxes (49%), followed by property taxes (17%), and charges for services (13%).

We anticipate that fiscal 2018 (year ending Dec. 31) general fund performance will reflect a surplus of 1% of general fund expenditures, or approximately $200,000. We expect that total governmental funds results will reflect a deficit for the year, though we also note that this will primarily reflect one-time capital projects and the spending of bond proceeds. In April 2018, city voters approved a use tax, which will be used to support operations and fund certain capital expenditures. Officials indicate that they anticipate adopting a budget with a slight general fund surplus in fiscal 2019. Based on current projections, we believe that the city's budgetary performance will likely be adequate during the next few years.

Very strong budgetary flexibility

Liberty's budgetary flexibility is very strong, in our view, with an available fund balance that we expect could improve in the near term from its fiscal 2017 level of 14.9% of operating expenditures, or $2.7 million.

We have adjusted the general fund balance to exclude a small, questionable receivable that management indicates may not be paid back to the general fund. Current fiscal 2018 year-end estimates show a slight increase in general fund reserves. Liberty has a formal fund balance policy requiring a total general fund (not merely unassigned and assigned) reserve between 18% and 22% of revenue, and we understand that the city intends to continue adhering to this policy. We expect reserves to remain very strong for the next few years.

Very strong liquidity

In our opinion, Liberty's liquidity is very strong, with total government available cash at 53.2% of total governmental fund expenditures and 2.3x governmental debt service in 2017. In our view, the city has exceptional access to external liquidity if necessary.

We have adjusted the city's cash and investments to exclude unspent bond proceeds and restricted cash at the end of fiscal 2017. Our determination that the city has exceptional access to external sources of liquidity is based on its record of frequent capital market access during an extended period and its issuance of a variety of types of debt, including enterprise-supported revenue bonds, special obligation and special assessment bonds, and tax-increment revenue bonds. In May 2015, the city refinanced its series 2004 tax-increment revenue bonds ($2.4 million outstanding) via a private placement. The bonds are payable solely from payments in lieu of taxes (PILOTs) and economic activity tax revenue appropriated annually as well as funds in the bonds' debt service reserve fund, with no recourse to city general revenue. The trust indenture does include an acceleration clause as a remedy on default; however, given the standard covenants and events of default, we do not consider the bonds a significant source of liquidity risk. The city also has entered into a privately placed special obligation refunding and improvement bonds in 2017 and 2018 for $5.3 million and $3.4 million, respectively, the terms of which do not contain unusual or nonstandard events of default that could pose a risk to the city's liquidity.

Very weak debt and contingent liability profile

In our view, Liberty's debt and contingent liability profile is very weak. Total governmental fund debt service is 22.8% of total governmental fund expenditures, and net direct debt is 316.2% of total governmental fund revenue.

The city does not anticipate issuing any additional new money debt within the next two years. We note that while debt supported solely by enterprise revenue is not included in our net direct debt calculation, debt supported by, for example, sales tax and tax-increment revenue is. We expect the city's debt and contingent liability profile to remain very weak.

Liberty's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.4% of total governmental fund expenditures in 2017. The city made 98% of its annual required pension contribution in 2017.

Liberty participates in the Missouri Local Government Employees' Retirement System, a defined-benefit pension plan. The city's fiduciary net position as a percentage of total pension liability was 86.4% in 2017, with a net pension liability of $7.4 million. Management is not projecting elevated annual contribution increases in the near term, and given the city's already relatively low annual costs, we do not currently consider the plan's budgetary impact to be a significant burden at the present time. Liberty does not pay for any portion of retiree health care premiums, but allows employees to stay in its health insurance plan after retirement and continue to pay active premium rates.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Outlook

The stable outlook reflects our expectation that Liberty will continue to demonstrate at least adequate budgetary performance and maintain reserves in compliance with its formal fund balance policy. We do not anticipate changing the rating within the next two years. The city's participation in the broad and diverse Kansas City MO-KS MSA provides additional support for the rating.

Upward scenario

Should the city's economic characteristics were improve significantly, and if its debt burden were to moderate to a level that we believe is consistent with higher-rated peers, a higher rating is possible.

Downward scenario

A lower rating is possible however, if the city's debt profile were to continue to deteriorate in such a manner that we no longer viewed its overall credit quality as commensurate with peers at the current rating. In addition, if the city were to experience weaker budgetary performance or flexibility, or if we were to see material decline in another rating factor, the rating could be lowered.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2018 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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