S&P Global Ratings

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Summary:

Smithville, Missouri; Appropriations; General Obligation

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Credit Profile		
US$3.625 mil GO bnds ser 2019 due 03/01/2038		
Long Term Rating	AA-/Stable	New
Smithville rfdg & imp certs of part		
Long Term Rating	A+/Stable	Affirmed
Smithville GO bnds ser 2018 due 03/01/2038		
Long Term Rating	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Smithville, Mo.'s series 2019 general obligation (GO) bonds and affirmed its 'AA-' long-term rating on the city's existing GO bonds and its 'A+' long-term rating on the city's certificates of participation (COPs) outstanding. The outlook is stable.

The GO bonds are general obligations of the city payable from ad valorem taxes levied without limitation as to rate or amount on all the taxable tangible property, real and personal, within its borders. Bond proceeds will be used for street, sidewalk, and trail improvements.

The COPs are secured by lease-rental payments made by the city, as lessee, to UMB Bank N.A., as lessor. We rate these obligations one notch lower than the city's general creditworthiness (as reflected in the GO rating) to account for the appropriation risk associated with the lease payment. The city has pledged its best efforts to seek appropriations annually out of its operating budget and has considered the affordability of the lease payment in its long-term plans. We considered the affordability and likelihood of the lease payment in the appropriation rating and in our view of the city's general creditworthiness. In our view, the lease features and terms are standard with no unusual risks regarding timely payment of debt. There is no construction or abatement risk. While the city has pledged to seek appropriations from all legally available city funds, it intends to make lease payments from water and sewer revenue.

Due to Smithville's location just north of Kansas City it is experiencing rapid growth, with a record number of residential permits issued in 2018. As a result, the city has been using a portion of its general fund reserves, in conjunction with a voter-authorized half-cent capital improvement sales tax and $5.625 million in voter authorized GO bonds, to pay for infrastructure investments to accommodate and facilitate this growth. While general fund reserves are projected to continue to decline as the city pays for these investments, we believe Smithville will maintain reserves in excess of 40% of expenditures as outlined in its approved fund balance policy. Following this issuance the city does not intend to issue additional debt in the next two fiscal years. In addition, while the city's tax base is currently almost 90% residential, due to ongoing development we believe its tax base will continue to grow and diversify over the longer term.

The rating reflects our assessment of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available cash reserve in fiscal 2018 of 72% of operating expenditures;
- Very strong liquidity, with total government available cash at 102.6% of total governmental fund expenditures and 43.0x governmental debt service, and access to external liquidity that we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 2.4% of expenditures and net direct debt that is 238.0% of total governmental fund revenue; and
- Adequate institutional framework score.

Strong economy

We consider Smithville's economy strong. The city, with an estimated population of 9,241, is located in Clay County in the Kansas City MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 118% of the national level and per capita market value of $81,338. Overall, the city's market value grew by 4.3% over the past year to $751.6 million in 2019. The county unemployment rate was 3.6% in 2017.

Smithville is largely a bedroom community about 20 miles north of downtown Kansas City, and 14 miles east of Kansas City International Airport. Residents have strong access to employment opportunities throughout the Kansas City MSA. It is currently experiencing residential growth with hundreds of residential units in the planning stages, and a record number of residential permits issued in 2018. The city's population has increased by more than 60% since 2000, and officials believe this growth will likely lead to future commercial development. Due to the city's location and ongoing development, we believe its market value will likely continue to increase over the next two years.

Adequate management

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas.

In developing the budget, management uses at least five years of historical data, outside data sources, and discussions with other local entities, including the county assessor. The board receives monthly budget-to-actual reports and budget amendments can be done as necessary throughout the year. The city adopted a formal fund balance policy to maintain a general fund balance of at least 40% of annual operating expenditures. It also adopted a formal investment policy and actively monitors investments. The city maintains a three-year capital improvement plan, with funding sources identified, that is reviewed at least annually by elected officials. However, the city lacks a long-term financial plan and debt management policy.

Strong budgetary performance

Smithville's budgetary performance is strong, in our opinion. The city had slight operating surpluses of 0.6% of expenditures in the general fund and of 1.3% across all governmental funds in fiscal 2018.

For fiscal 2018, we adjusted general fund operating results to account for one-time capital expenditures paid for out of the general fund. Due to the city's large fund balance levels, officials chose to fund several capital investments from the city's existing reserves. We also adjusted total governmental fund expenditures downward to account for a street sweeper paid for with a capital lease. Sales tax accounts for approximately 30% of general fund revenue, while property tax accounts for approximately 18%. Due to recent growth, management indicates property and sales tax revenue have been increasing in recent years.

For fiscal 2019, management intends to continue to use reserves to fund one-time capital expenditures. Although management intends to draw down a portion of its reserves for targeted capital investments, on the operating side we believe the city's budgetary performance will likely remain strong over the next two fiscal years.

Very strong budgetary flexibility

Smithville's budgetary flexibility is very strong, in our view, with an available cash reserve in fiscal 2018 of 72% of operating expenditures, or $3.2 million. We expect the available cash reserve to remain above 30% of expenditures for the current and next fiscal years, which we view as a credit strength. Negatively affecting budgetary flexibility, in our view, is Smithville's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

Management indicates the city may continue to use portions of its fund balance for one-time capital expenditures. However, despite the potential drawdowns, management reports the city will continue to maintain available fund balance in excess of 40% of general fund expenditures as outlined in the city's formal fund balance policy. As a result, we believe the city will likely maintain very strong budgetary flexibility over the next two fiscal years.

Very strong liquidity

In our opinion, Smithville's liquidity is very strong, with total government available cash at 102.6% of total governmental fund expenditures and 43.0x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

The city's strong access to external liquidity is demonstrated through access to the market in the past two decades, including the issuance of appropriation-backed obligations. Given the city's very strong reserves and stable operating performance, we believe the city will likely maintain very strong liquidity over the next few fiscal years.

The city privately placed its series 2012 COPs with approximately $170,000 currently outstanding. The financing terms do not include any material nonstandard liquidity risks. The city does not have any variable-rate debt.

Very weak debt and contingent liability profile

In our view, Smithville's debt and contingent liability profile is very weak. Total governmental fund debt service is 2.4% of total governmental fund expenditures, and net direct debt is 238.0% of total governmental fund revenue.

In April 2018, city voters approved a half-cent capital improvement sales tax, which will be in place from Oct. 1, 2018, to Dec. 31, 2038, and the issuance of up to $5.625 million in GO bonds. It issued $2 million in fiscal 2018 and is now issuing the remaining $3.625 million. While the bonds are being issued as general obligations of the city, officials believe revenue from the new half-cent sales tax will be sufficient to make debt service payments on the bonds. After this issuance, the city does not intend to issue additional debt during the next two-to-three fiscal years.

In our calculation of net direct debt, we view the city's series 2012 COPs and the refunding portion of the series 2018 COPs, which are being paid out of the water and sewer fund, as self-supporting. The city intends to pay the improvement portion of the series 2018 COPs out of the water and sewer fund as well. If the city continues to maintain sufficient coverage, we will likely view these certificates as self-supporting in the future.

Smithville's pension contributions totaled 5.3% of total governmental fund expenditures in 2018. The city made its full annual required pension contribution in 2018.

Smithville participates in the Missouri Local Government Employees' Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS was created and is governed by state statute, and is a defined-benefit pension plan that provides retirement, disability, and death benefits. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, the city's net pension liability as of Oct. 31, 2018, was $1 million. In addition, the plan fiduciary net position as a percent of the total pension liability was 80.9%. The city does not provide any other postemployment benefits.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Outlook

The stable outlook reflects our opinion that despite potential drawdowns for capital investments, the city will maintain very strong budgetary flexibility and liquidity. In addition, we believe the city's access to the broad and diverse Kansas City MSA provides additional rating stability. Therefore, we do not expect to change the rating within the two-year outlook period.

Upside scenario

If the city's market value continues to experience sustained increases, coupled with more formal financial management planning and policies, we could raise the rating.

Downside scenario

If financial performance were to experience significant deterioration, leading to significant and sustained decreases in reserves, we could lower the rating.

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
- 2018 Update Of Institutional Framework For U.S. Local Governments