

RatingsDirect®

Summary:

Belton, Missouri; Appropriations; General Obligation

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Credit Profile

US\$20.0 mil GO bnds ser 2019 dtd 10/08/2019 due 03/01/2039

<i>Long Term Rating</i>	AA-/Stable	New
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Belton rfdg certs of part ser 2017 dtd 05/08/2017 due 03/01/2028

<i>Long Term Rating</i>	A+/Stable	Affirmed
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Belton GO

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Belton ICR

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

S&P Global Ratings assigned its 'AA-' rating to Belton, Mo.'s series 2019 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA-' rating on the city's GO debt outstanding, as well as its 'A+' rating on the city's series 2017 refunding certificates of participation (COPs). The outlook is stable.

The GO bonds are secured by the city's full faith and credit, and are payable from unlimited-ad valorem property taxes. Bond proceeds will be used for various street and storm sewer system improvements.

The 2017 COPs are secured by annual lease rental payments payable from legally available funds, subject to annual term renewal. We rate the COPs one notch lower than the GO rating to capture the risk associated with annual appropriations. We have not notched the ratings any further, as we see no unusual risks in the city's willingness to support the obligations, political or administrative risks regarding the corresponding projects, the obligor's involvement with the associated projects, or unusual terms that would disrupt timely payment.

Despite recent operating deficits, we expect the city to be balanced operationally beginning in fiscal 2020, due to a voter authorized half-cent sales tax specifically for public safety funding. However, if the city is unable to return to structural balance despite the increased sales tax revenue, we could consider lowering the rating. We also note that the city's operating revenues may be more susceptible to negative pressure in an economic downturn given the city's reliance on sales tax and franchise tax revenue, which accounted 24% and 22% of general fund revenue respectively in fiscal 2018. Although we expect the city to maintain a very strong financial position over the next two years, over the medium to long-term, with its proximity to the growing Kansas City metro area, if service costs from economic expansion precede revenue growth the city's budget may be pressured. We note that the city's high debt burden will likely be a constraining factor on the rating for the foreseeable future.

The rating reflects our view of the city's:

- Adequate economy, with projected per capita effective buying income at 92.9% and market value per capita of \$48,940, though that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Weak budgetary performance, with an operating deficit in the general fund and a slight operating deficit at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 77.0% of total governmental fund expenditures and 3.3x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 23.6% of expenditures and net direct debt that is 220.7% of total governmental fund revenue, as well as high overall net debt at greater than 10% of market value; and
- Adequate institutional framework score.

Adequate economy

We consider Belton's economy adequate. The city, with an estimated population of 23,546, is located in Cass 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 92.9% of the national level and per capita market value of \$48,940. Overall, the city's market value grew by 3.8% over the past year to \$1.2 billion in 2019. The county unemployment rate was 3.1% in 2018.

Belton is about 20 miles south of downtown Kansas City. The city is growing as the Kansas City metropolitan area economy continues to expand. Assessed value (AV) has averaged 4.5% growth over the last three years, totaling \$268 million in fiscal 2019. Residential development has been particularly pronounced, with residential building permits totaling between 106 and 122 annually from 2016 to 2018, which is considerably up from an annual average of 19 between 2009 and 2015. Although a \$134 million investment to create an industrial campus in Belton began in 2018, a property tax abatement will limit its initial direct impact to the city's AV. Overall, city officials expect the tax base to continue to grow over the next two years, albeit at a slightly slower pace than the past 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.

Management prepares each year's budget based on three or four years of historical data, and provides the council with monthly budget-to-actual and investment portfolio reports. Management engages in three-year financial projections, which is updated annually. Although the city has historically maintained a five-year capital improvement plan and updated it annually, due to turnover in the public works department the city has not updated this plan since fiscal

2018. The city anticipates updating the plan regularly once again in the coming years. The city has an adopted investment management policy that adheres to state guidelines. The city also has a policy to maintain a general fund balance equal to at least 15% of the prior year's revenues to cover expenditure contingencies and cash flow needs. The city does not have a formal debt management policy.

Weak budgetary performance

Belton's budgetary performance is weak in our opinion. The city had deficit operating results in the general fund of negative 3.2% of expenditures, and slight deficit results across all governmental funds of negative 1.2% in fiscal 2018. These figures have been adjusted for recurring transfers out of the general fund, as well as, the refunding of debt outstanding with bond proceeds.

The deficit results in fiscal 2018 reflect an increase in staffing levels, particularly for public safety, as well as wage increases for fire and police. For fiscal 2019, city officials expect a further \$300,000 general fund drawdown, approximately 1.8% of budgeted expenditures, due to the higher public safety staffing levels and pay, and the city council's desire to lower the available fund balance closer to the city's reserve policy of 15% of the prior year's revenue. However, as of April 2019, a voter approved half-cent sales tax specifically for public safety expenditures went into effect. With this additional revenue, management expects the budget to be balanced operationally from fiscal 2020 onwards, but may continue to draw down on reserves through one-time items to fulfill the city council's desire for reserves to be closer to the city's policy level. Therefore, we believe it is likely that the city will have operating deficits near or exceeding 1% of expenditures across both the general fund and total governmental funds over the next two years. However, once reserve levels have been lowered to near 15%, it is our expectation for budgetary results to stabilize. We note that the city's general fund revenues are diverse, with sales tax the largest source at 24% of fiscal 2018 revenue, followed by franchise taxes (22%), interfund charges for support services (16%), charges for services (14%), and property taxes (9%).

Very strong budgetary flexibility

Belton's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 25% of operating expenditures, or \$4.0 million. Budgetary flexibility consists of the assigned and unassigned general fund balances, as well as the \$2.3 million committed general fund balance that the city maintains as a stabilization fund. Although we expect the city's available fund balance to decline over the next two fiscal years, we expect it will remain above or near the 15% of expenditures level we consider very strong.

Very strong liquidity

In our opinion, Belton's liquidity is very strong, with total government available cash at 77.0% of total governmental fund expenditures and 3.3x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

Liquidity is made up of \$29.9 million of unrestricted cash and short-term investments held in the city's governmental and enterprise funds. The city issued its series 2015 tax increment refunding revenue refunding bonds to a single buyer. We do not think that this direct purchase obligation, of which \$6.3 million remains outstanding, poses a liquidity risk because the bonds are secured by incremental revenues from one of the city's tax increment districts, the bonds are not subject to acceleration following an event of default, and there is no legal recourse to the city's other revenues

if incremental revenues are insufficient to pay debt service. It is our expectation that liquidity will remain very strong for the near term.

Very weak debt and contingent liability profile

In our view, Belton's debt and contingent liability profile is very weak. Total governmental fund debt service is 23.6% of total governmental fund expenditures, and net direct debt is 220.7% of total governmental fund revenue. Negatively affecting our view of the city's debt profile is its high overall net debt of 11.5% of market value. Management does not have additional debt plans at this time, but may issue the remaining \$8 million of authorized but unissued debt over the next two to three years.

Belton's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 3.8% of total governmental fund expenditures in 2018. The city made 99% of its annual required pension contribution in 2018. The city's employees are covered by the Missouri Local Government Employees' Retirement System (LAGERS), to which the city pays 100% of its annual employer contribution. Under Governmental Accounting Standards Board Statement No. 68, LAGERS had a funded level of 97.8% as of June 30, 2017. As of the same date, the city's proportionate share of the net pension liability was \$1 million. The city allows retirees to remain on its health care plan at their own expense, giving rise to an implicit rate subsidy. As of fiscal 2018, the city's OPEB liability totaled \$817,648. Given the well-funded status of LAGERS and the relatively small total pension and OPEB liability, we do not expect post employment benefits to pressure the city's budget over the near term.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Outlook

The stable outlook reflects our expectation that the city will maintain at least very strong budgetary flexibility and liquidity, despite expected general fund drawdown's over the next two fiscal years, as the city works to bring its available fund balance closer to its stated policy of 15% of the previous year's revenue. We therefore do not expect to change the rating within the next two years.

Downside scenario

We may lower the rating if the city is not able to restore structural balance following increasing sales tax revenue to offset increased public safety expenditures, as planned.

Upside scenario

We may raise the rating if key economic indicators substantially improve, coupled with improvement in the debt burden and the maintenance of at least adequate budgetary performance and very strong budgetary flexibility.

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

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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