S&P Global Ratings

RatingsDirect®

Summary:

Liberty, Missouri; Appropriations; General Obligation

Primary Credit Analyst:
Misty L Newland, San Francisco (1) 415-371-5073; misty.newland@spglobal.com

Secondary Contact:
Bobbi Gajwani, Chicago (1) 312-233-7001; bobbi.gajwani@spglobal.com

Table Of Contents

Summary:

Liberty, Missouri; Appropriations; General Obligation

Credit Profile		
US$4.655 mil spl oblig bnds ser 2019 due 05/01/2039		
Long Term Rating	A+/Stable	New

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to the City of Liberty, Mo.'s series 2019 special obligation bonds. At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating on the city's GO bonds and its 'A+' long-term rating on the city's existing special obligation bonds. The outlook is stable.

The series 2019 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, pursuant to our criteria, to reflect the appropriation risk associated with the annual payment. We view these bonds as having a strong relationship to the obligor. The city pledges to annually appropriate from its operating revenue, and has a long track record of appropriating for similar obligations. We see no unusual political, timing, or administrative risk related to the debt payment.

Proceeds from the series 2019 special obligation bonds will be used for computer and other equipment for the Information Services Department, property improvements and renovations at Fountain Bluff Sports Complex, and vehicles and other capital equipment for the city's police department.

The city's existing GO bonds are secured by the city's unlimited-tax GO pledge.

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 an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 68.9% of total governmental fund expenditures and 3.2x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability position, with debt service carrying charges at 21.5% of expenditures and net direct debt that is 255.6% 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 31,184, is located in Clay County in the Kansas City MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 107.2% of the national level and per capita market value of $79,710. Overall, the city's market value grew by 11.2% over the past year to $2.5 billion in 2020. The county unemployment rate was 2.9% in 2018.

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 (1,400 employees), Liberty School District (1,800), and Hallmark Cards Inc.'s warehouse distribution facility (1,351). The city's tax base is very diverse, in our view, with the city's 10 largest taxpayers representing 5.3% of assessed valuation. 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. With continued emphasis by the city on redevelopment and steady demand for housing, we expect assessed value trends to remain positive. The city reports that it continues its efforts to diversify the economy and has attracted new companies in the areas of health care, commercial, retail, and hospitality. In addition, the Ford stamping plant (automotive manufacturing) is in discussions with council for a project that would add 148 jobs, increasing the number of total employees to 450.

Strong management

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

Highlights of the financial management assessment 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 year-to-date sales tax performance to the entire council;
- Long-term financial planning that includes detailed multiyear projections that extend at least five years out for major funds and that are updated several times a year;
- Detailed five-year capital improvement plan for major departments that identifies funding sources and is updated annually;
- Investment policy with monthly reporting to the council on investment performance;
- Formal debt management policy, which outlines allowable debt and debt limitations; and
- Formal reserve policy requiring a general fund balance of 18% to 22% of revenue, with which it is in compliance.

Adequate budgetary performance

Liberty's budgetary performance is adequate, in our opinion. The city had a surplus operating results in the general fund of 6.1% of expenditures but a deficit result across all governmental funds of 5.3% in fiscal 2018.

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.

The general fund surplus for fiscal 2018 (ended Dec. 31) is primarily attributable to growth in sales tax revenue. In April 2018, city voters approved a use tax, revenue from which will be used to support operations and fund certain capital expenditures. Fiscal 2019 estimated general fund results include a small surplus, after transfers. The city's primary governmental activities revenue sources are sales taxes (49%), followed by property taxes (27%), charges for services (13%) franchise fees (10%), and state gasoline/motor vehicle fees, which have all been trending positive and which management expects will continue to do so into 2019 and 2020. In addition, some tax increment redevelopment projects and their associate tax abatements will begin to mature in 2020, resulting in sales tax revenue incrementally growing each year to a total of about $1.5 million in 2024. The city's property tax revenue will also benefit from the expiration of the redevelopment project abatements, although the amount has not yet been determined. Officials anticipate that this additional revenue, plus expected continued sales tax revenue growth, will more than offset potential losses in telecommunications/cable-based franchise fees, as recent declines are expected to continue as consumers' consumption changes.

Officials are developing the fiscal 2020 budget and anticipate adopting a budget with a slight general fund surplus. Based on 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 in fiscal 2018 of 21% of operating expenditures, or $4 million.

Liberty has a formal fund balance policy requiring a total general fund (not merely unassigned and assigned) reserve of 18% to 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 68.9% of total governmental fund expenditures and 3.2x governmental debt service in 2018. In our view, the city has exceptional access to external liquidity if necessary 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. The city also 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. According to the 2018 comprehensive annual financial report, the city primarily invests in U.S. Treasuries and federal agencies.

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 21.5% of total governmental fund expenditures, and net direct debt is 255.6% of total governmental fund revenue.

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. The city has no plans to issue additional money debt within the next two years. However, the city is assessing needed improvements for city hall and would likely ask voters to approve GO bonds to fund the project in late 2020 or spring of 2021. We expect the city's debt and contingent liability profile to remain very weak.

Liberty's required pension and actual other postemployment benefits (OPEB) contributions totaled 4.5% of total governmental fund expenditures in 2018. The city made 98% of its annual required pension contribution.

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 90.2% in 2018, with a net pension liability of $5.8 million. Liberty pays no portion of retiree health care premiums, but has an implicit rate subsidy, as it allows employees to stay in its health insurance plan after retirement and continue to pay active premium rates. The OPEB liability as of fiscal 2018 was $571,312.

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 MSA provides additional support for the rating.

Upside 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 that of higher-rated peers, a higher rating is possible.

Downside 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 that of similarly rated peers. In addition, if the city were to experience weaker budgetary performance or flexibility, we could lower the rating.

Related Research

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

Ratings Detail (As Of September 30, 2019)		
Liberty spl oblig bnds		
Long Term Rating	A+/Stable	Affirmed
Liberty spl oblig bnds ser 2015 due 03/01/2035		
Long Term Rating	A+/Stable	Affirmed

Ratings Detail (As Of September 30, 2019) (cont.)		
Liberty GO		
Long Term Rating	AA-/Stable	Affirmed
Liberty APPROP		
Long Term Rating	A+/Stable	Affirmed