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Ratings

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Summary:

Jefferson City, Missouri; Appropriations

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US$7.045 mil special obligation imp bnds (Pks Sys Proj) ser 2019 due 09/01/2039		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Jefferson City, Mo.'s series 2019 special obligation improvement bonds. The outlook is stable.

Security and use of proceeds

Securing the series 2019 special obligation bonds are payments by the city pursuant to an ordinance, subject to annual appropriation. Proceeds will be used to make various improvements, renovations, expansions, repairs, replacements, and additions to the city's park system.

We rate the city's appropriation-backed debt one notch lower than our view of the city's general creditworthiness 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.

Credit overview

Located roughly halfway between St. Louis and Kansas City, Jefferson City is the capital of Missouri and benefits from the stabilizing presence of the state government. Earlier in the year, the city was struck by both flooding and a tornado, which resulted in property damage that could affect both the city's assessed value and operating results depending on the rate of reconstruction and the timing of reimbursements from the Federal Emergency Management Agency (FEMA). However, we do not anticipate that these repercussions will materially damage the city's credit quality. Overall we believe that the city will maintain adequate budgetary performance and that FEMA reimbursements will keep reserves at levels that we consider very strong. Consequently, we anticipate that the city will maintain strong credit characteristics in line with its rating for the foreseeable future.

The rating reflects our view of the city's:

- Strong economy, with a local stabilizing institutional influence;
- Strong management, with good financial policies and practices under our financial management assessment methodology;
- Adequate budgetary performance, with a slight operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 24% of operating expenditures;

- Very strong liquidity, with total government available cash at 72.6% of total governmental fund expenditures and 28.9x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.5% of expenditures and net direct debt that is 22.3% of total governmental fund revenue, as well as rapid amortization, with 65.5% of debt scheduled to be retired in 10 years; and
- Adequate institutional framework score.

Strong economy

We consider Jefferson City's economy strong. The city, with an estimated population of 43,477, is located in Callaway and Cole counties. The city has a projected per capita effective buying income of 86.1% of the national level and per capita market value of $83,677. The weight-averaged unemployment rate of the counties was 2.5% in 2018.

The city is the capital of Missouri and benefits from the stabilizing presence of the state government. Earlier this year, the city was struck by flooding as well as a tornado, which damaged a number of properties. Although this damage could result in a decline in the city's market value, we believe that the local economy will remain strong overall.

The area's largest employers include the State of Missouri (14,174 employees), Jefferson City Public Schools (1,627), Capital Region Medical Center (1,527), and Scholastic Inc. (1,500).

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 city's financial management policies and practices include the use of both historical data and consultations with a number of outside sources to develop financial forecasts, monthly reporting to the council on budget-to-actual performance, maintenance of a detailed long-term financial plan, maintenance of a formal investment management policy, and adherence to a formal reserve policy to keep a minimum of 17% of expenditures on hand. The city does not maintain a formal debt management policy, and we believe that its capital improvement plan lacks a number of key details.

Adequate budgetary performance

Jefferson City's budgetary performance is adequate, in our opinion. The city had a slight deficit operating result in the general fund of 1.3% of expenditures but a surplus result across all governmental funds of 1.8% in fiscal 2018.

We have made a number of adjustments to the city's financial data to better analyze its typical operations and facilitate comparisons with its peers. For instance, we have treated recurring transfers into and out of the general fund as revenue and expenditures, respectively.

The city's general fund revenue is primarily composed of sales and user taxes (34.7%) as well as utility#?# franchise taxes (23%), both of which have remained largely stable over the past three years.

The city posted general fund operating deficits in fiscal years 2017 and 2018, which officials attribute to a conscious effort to reduce reserves to levels more in line with its formal target of 17%.

In 2019, the city was hit by both a tornado and flooding, which resulted in roughly $4 million of damages and clean-up expenses. Officials are in the process of requesting reimbursements from FEMA. Excluding these one-time costs and corresponding reimbursements, officials project roughly break-even operations for fiscal years 2019 and 2020. Given officials' projections as well as the city's historically stable operations, we believe that the city will maintain generally adequate budgetary performance for the foreseeable future.

Very strong budgetary flexibility

Jefferson City's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 24% of operating expenditures, or $8.3 million.

Given management's projections and formal minimum reserve target of 17% of expenditures, we believe the city's budgetary flexibility will remain very strong for the foreseeable future.

Very strong liquidity

In our opinion, Jefferson City's liquidity is very strong, with total government available cash at 72.6% of total governmental fund expenditures and 28.9x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

The city reported $34.6 million in cash and cash equivalents at fiscal year-end 2018. It has no direct purchase, private placement, or variable-rate debt that could pressure liquidity. Given management's expectations for fiscal years 2019 and 2020, we expect liquidity will likely remain very strong during the next few fiscal years.

Very strong debt and contingent liability profile

In our view, Jefferson City's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.5% of total governmental fund expenditures, and net direct debt is 22.3% of total governmental fund revenue. Approximately 65.5% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Officials have no plans to issue additional debt, and consequently we do not anticipate that the city's debt profile will change materially within the next few years.

Jefferson City's required pension and actual other postemployment benefits (OPEB) contributions totaled 9.6% of total governmental fund expenditures in 2018. The city made 95% of its annual required pension contribution.

The city participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer defined benefit plan. We believe that a number of the plans assumptions are aggressive (such as the discount rate of 7.25% and the level percent amortization method) and consequently believe that contributions will increase over time. The city allows retirees to remain on the city's health insurance plan paying the same premium as active employees, which creates an implicit subsidy. Given inflation in the medical industry, as well as the city's lack of an OPEB trust, we believe that its OPEB expenses will increase over time as well. Despite the anticipated increases in the city's pension and OPEB costs, we do not believe that these obligations will significantly pressure the city's operations, as the pension plan is well funded at 96.1% and as the city's total carrying charge represents a comparatively small proportion of its total operating budget.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Outlook

The stable outlook reflects our expectation that the city will maintain largely adequate budgetary performance and very strong reserves. Further stability is provided by the presence of the state government. Consequently, we do not anticipate changing the rating within the two-year outlook horizon.

Upside scenario

If the local economy were to materially grow and develop, as evidenced by improved income and market value metrics, and if the city were to maintain stronger budgetary performance and flexibility in line with those of higher-rated peers, we could consider raising the rating.

Downside scenario

If the city were to materially increase its debt burden or see a material deterioration in performance that resulted in a significant decline in reserves, we could consider lowering the rating.

Related Research

2019 Update Of Institutional Framework For U.S. Local Governments