

RatingsDirect®

Summary:

Augusta, Kansas; General Obligation

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Credit Profile

US\$8.14 mil taxable GO rfdg bnds ser 2021 due 09/01/2044

Long Term Rating AA-/Stable New

Augusta GO

Long Term Rating AA-/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' rating to Augusta, Kan.'s proposed \$8.14 million series 2021 taxable general obligation (GO) refunding bonds. The outlook is stable. At the same time, we have affirmed our 'AA-' rating on the city's GO obligations outstanding. The outlook is stable.

Augusta's full faith and credit pledge, including ad valorem taxes levied without limitation as to rate or amount on all taxable tangible property, both real and personal, within the city's territorial limits, secures the GO bonds as well as the GO debt outstanding.

Proceeds from the bonds will refund existing debt for interest cost savings. After this issuance, the city will have \$17.2 million in debt outstanding, including GO debt, loans, and capital leases.

Credit overview

Overall, Augusta's key credit factors have remained relatively stable. Despite being a part of the Wichita metropolitan statistical area (MSA), the city has weaker economic metrics. Officials note that there has been some commercial expansion, which will add to the historically steady but modest market value increases over the years. The city maintains, in our view, strong cash-based reserves, which we expect to continue. Its debt profile is weak, and with more issuances expected in the next several years, we expect it to remain weak for the outlook period.

The rating reflects our opinion of the city's:

- Weak economy, with market value per capita of \$51,134 and projected per capita effective buying income (EBI) at 74.1%, but that benefits from access to a broad and diverse MSA;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2020;
- Strong budgetary flexibility, with an available cash reserve in fiscal 2020 of 34% of operating expenditures;
- Very strong liquidity, with total government available cash at 2.0x total governmental fund expenditures and 19.8x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 10.3% of expenditures and net

direct debt that is 132.6% of total governmental fund revenue; and

- Strong institutional framework score.

Environmental, social, and governance factors

We have analyzed social and governance risks relative to the city's economy--as well as the city's financial management, budgetary performance, budgetary flexibility, and liability profile--and have determined all are in line with our view of the sector standard. We view the environmental risks as elevated as the area is exposed to physical risks, including flooding, which the city has had some damage from in the past several years, and natural disasters related to tornados. The city works closely with the Kansas Department of Emergency Management (KDEM) to apply for funding and FEMA to mitigate damages from any major weather events.

Stable Outlook

Upside scenario

We could raise the rating if the city's economic metrics materially improved to be comparable to those of higher rated peers, while maintaining a strong financial position.

Downside scenario

We could lower the rating if additional debt issuances weaken the city's financial metrics, or if budgetary performance, liquidity, or budgetary flexibility deteriorate.

Credit Opinion

Weak economy

We consider Augusta's economy weak. The city, with a population of 8,911, is in Butler County in central Kansas, about 12 miles east of Wichita and encompasses 4.4 square miles. It is in the Wichita MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 74.1% of the national level and per capita market value of \$51,134. Overall, market value grew by 2.1% over the past year to \$455.7 million in 2021. The county unemployment rate was 6.5% in 2020.

Augusta is on the Santa Fe-Burlington Northern Railroad, U.S. Highways 54 and 77, and U.S. Highway 400. Although market value growth remains relatively modest, the local economy is supported by the broad and diverse greater Wichita MSA. Major employers have a stable presence; they include Butler Community College, Butler County, Susan B. Allen Memorial Hospital, and the local school district. While the employment base and top taxpayers are stable, socioeconomic indices have remained relatively weak and below state and national levels.

The city's downtown area specifically is experiencing noticeable growth, with the addition of over 10 new businesses since early 2020, despite the onset of the pandemic. One of the city's largest employers, D-J Engineering, which services the aerospace industries (commercial, military, general aviation and rockets) is expanding, which will bring additional jobs to the city. Officials note that they are running out of available space downtown as several developers are working on residential upgrades and conversions to AirBnB lodging. The city issued seven new residential

single-family home permits in 2020. We expect the city to continue to experience steady, modest growth in the tax base, as we have seen historically.

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.

Highlights of financial management practices include revenue and expenditure assumptions based, in part, on three years of historical data, and in some cases for certain revenue streams such as sales taxes data that goes well beyond three years. In addition the city uses information from outside sources to build revenue and expenditure assumptions. Monthly budget-to-actual updates are provided to council, which include year-to-date comparisons with the budget as well as the previous year. The city's budget can be amended at any time. Investment management follows state guidelines, with annual reporting of holdings and performance to council. The city maintains a formal reserve target in the general fund of 15% of expenditures, which it currently adheres to. It currently does not have formal policies pertaining to long-term financial planning. The city has a capital improvement plan that goes out through 2025, although it has not been updated this year. It does informally and widely discuss future capital needs and potential debt issuance for major projects. The city also has basic debt policies, yet they are not overly robust or restrictive. It has not had been subject to any recent cyberattacks and does have cybersecurity training.

Strong budgetary performance

Augusta's budgetary performance is strong, in our opinion. The city had balanced operating results in the general fund of 0.1% of expenditures, and surplus results across all governmental funds 1.5% in fiscal 2020.

We have adjusted our ratios for what we view as recurring general fund transfers and debt-financed capital items across all governmental funds.

Supporting fiscal 2020's performance were additional receipts for sales taxes, which reached an all-time high, coupled with conservative budgeting and a decrease in expenditures compared with the budget, as a measure to mitigate any uncertainty surrounding COVID-19. In fiscal 2020, sales taxes accounted for 44% of general fund revenue, followed by property taxes at 24%.

Fiscal 2021 is remaining closely to the budget, with planned drawdowns in the general and capital improvement funds. The general fund balance is projected to decrease to roughly \$1.2 million at fiscal year-end, down from \$1.5 million in fiscal 2019, mostly due to wage increases and equipment purchases. The capital improvement fund is projected to end with \$175,000, down from \$329,000, due to pay-as-you-go funding for capital projects. The equipment reserve fund will hold steady.

The city is in the planning stages of its 2022 budget, which will take into account higher sales tax collections, slight assessed value growth, several new employees, and an increased mill levy of about 3.3%. It is also planning to create a new stormwater utility in 2022, which will generate revenues for stormwater projects. The city does not have plans to spend down reserves in the general fund in the near term.

The city received \$345,000 in CARES Act money, used for airport projects and operations, COVID-19-related expenses, building improvements, and technology; it expects \$1.4 million from the American Rescue Plan Act of 2021,

which it is still planning how to use.

While we recognize that recent drawdowns weaken its reserve level, we do not view them to be material or having a significant effect on its finances. Additional receipts from rising sales taxes, the city's largest revenue source, will also mitigate some of the drawdowns. We believe the city's budgetary performance will remain strong to adequate in the near term.

Strong budgetary flexibility

Augusta's budgetary flexibility is strong, in our view, with an available cash reserve in fiscal 2020 of 34% of operating expenditures, or \$1.9 million. The cash reserve includes \$1.3 million (23.7% of expenditures) in the general fund and \$583,000 (10.8%) that is outside the general fund but legally available for operations. Impairing budgetary flexibility, in our view, is Augusta's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

For fiscal 2020, available cash balances improved, largely due to increases in its two largest revenue sources, property and sales taxes. Fiscal 2021 has planned drawdowns in available reserves in the general and capital improvement funds. Based on 2021's year-to-date budgetary performance and the city's 2022 budget expectations, we expect reserves will remain strong.

Very strong liquidity

In our opinion, Augusta's liquidity is very strong, with total government available cash at 2.0x total governmental fund expenditures and 19.8x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

The city has primarily issued tax- and revenue-backed debt over the past 20 years. We expect Augusta's liquidity will remain very strong in the near term. Cash is primarily held in certificates of deposit and municipal investment pools, which we do not view as aggressive investments.

The city privately placed two loans with the Kansas Department of Health and Environment, \$1.29 million in 2016 for financing a wastewater improvement project and \$1.2 million in 2021 for financing water meters and rehabilitation of the state street water tower. We do not think this private placement presents a contingent-liquidity risk. While loan documents allow for immediate principal and interest payment acceleration on the occurrence of an event of default, officials advise they would likely issue debt to repay, and we think there is sufficient cash to cover the payments in the meantime, since at fiscal year-end 2020, the city had \$1.2 million in unencumbered cash in the general fund, and it could also use unencumbered cash from the electric fund, which contained \$2.4 million.

Weak debt and contingent liability profile

In our view, Augusta's debt and contingent liability profile is weak. Total governmental fund debt service is 10.3% of total governmental fund expenditures, and net direct debt is 132.6% of total governmental fund revenue.

Following this issuance, total direct debt outstanding is approximately \$17.2 million. We believe the city's debt profile will remain weak over the outlook horizon based on current debt levels and the fact that management does have plans for additional borrowing for street improvements (roughly \$2 million), construction of public works buildings (\$2.5 million), and possibly electric projects.

The city made its full required pension contribution in 2020.

The city participates in the Kansas Public Employees' Retirement System, a state-administered, cost-sharing, multiple-employer defined-benefit pension plan. State law provides that the employer contribution rates are determined based on the results of an annual actuarial valuation. Augusta has historically met in full the statutory required contribution. The plan's current funded status is 66.3%. The discount rate for KPERS is 7.5% aggressive, in our view, relative to the national average. The city's pension costs in 2020 were \$622,000. Its strong budgetary flexibility and manageable pension contribution compared to expenditures somewhat offset the plan's relatively low funded ratio and higher fixed costs because we believe Augusta has the flexibility to handle contribution rate increases. The city makes health care benefits available to eligible former employees and their eligible dependents but they must pay their insurance premiums in full; therefore, there is no direct cost to the city under this program.

Strong institutional framework

The institutional framework score for Kansas municipalities with more than \$275,000 in annual gross receipts and more than \$275,000 in GO or revenue bonds outstanding is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 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
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

Ratings Detail (As Of September 20, 2021)

Augusta GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Augusta GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

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