S&P Global
Ratings

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Summary:

St. Joseph, Missouri; Appropriations; General Obligation

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Credit Profile		
US$9.0 mil GO bnds ser 2021 due 03/01/2040		
Long Term Rating	AA-/Stable	New
St Joseph ICR		
Long Term Rating	AA-/Stable	Affirmed
St. Joseph special obligation rfdg and imp bnds (Sewerage Sys Proj)		
Long Term Rating	A+/Stable	Affirmed
St. Joseph GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
St Joseph Indl Dev Auth, Missouri		
St. Joseph, Missouri		
St Joseph Indl Dev Auth (St. Joseph) APPROP		
Long Term Rating	A+/Stable	Affirmed
St Joseph Indl Dev Auth (St. Joseph) APPROP		
Long Term Rating	A+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to St. Joseph, Mo.'s $9 million series 2021 general obligation (GO) bonds and affirmed its 'AA-' issuer credit rating (ICR) and underlying rating (SPUR). Additionally, we affirmed our 'A+' rating on the city's existing special-obligation debt, with the Missouri Development Finance Board and St. Joseph Industrial Development Authority, supported by the city. The outlook for all ratings is stable.

Unlimited ad valorem property taxes secure the bonds. Officials plan to use series 2021 GO bonds proceeds to fund bridge and street improvements; this issuance is a continuation of funding approved by the electorate in June 2020 for $20 million in GO bonds.

Credit overview

St. Joseph emerged from fiscal 2020 with surplus results, even though sales tax revenue did experience initial decline due to the COVID-19 pandemic restrictions. Management estimates a fiscal 2021 deficit of ($2.26 million) due to one-time in nature capital expenses, which was reduced from $4.09 million by received federal stimulus funds. Financial flexibility continues to be a strength for the city, with robust reserves of $85.2 million at year-end 2020. Additionally, the city effectively received $19 million in American Rescue Plan funds fiscal 2022, and it will receive a second tranche of $19 million for fiscal 2023. Based on management's projections and conservative budgeting, healthy reserves, and minimal impact from COVID-19, we believe the city will continue to produce at least balance operations in fiscal 2022.

For S&P Global Economics' latest U.S. forecast, see "Credit Conditions North America Q3 2021: Looking Ahead, It's Looking Up," published June 29, 2021, on Ratings Direct.

The 'AA-' rating reflects our assessment of the city's:

- Weak economy, with market value per capita of $57,563 and projected per capita effective buying income (EBI) at 71.8% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 98.5% of total governmental fund expenditures and 8.1x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 12.2% of expenditures and net direct debt that is 40.1% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Adequate institutional framework score.

Environmental, social and governance (ESG) factors

We have analyzed the city's ESG risks and believe that they align with the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the city develops a trend of not maintaining balanced operations, resulting in substantially deteriorated budgetary flexibility, and if increased costs from debt service carrying charges pressure the budget.

Upside scenario

We could raise the rating if key economic indicators improve substantially to levels that we consider comparable with those of higher-rated peers while management maintains very strong budgetary flexibility and liquidity.

Credit Opinion

Weak economy

We consider St. Joseph's economy weak. The city, with an estimated population of 75,551, is in Buchanan County. The city has a projected per capita EBI of 71.8% of the national level and per capita market value of $57,563. The county unemployment rate was 4.9% in 2020.

St. Joseph is the seat for Buchanan County and is 55 miles north of downtown Kansas City, Mo. The city's economy centers on manufacturing and reflects the city's status as a regional trade and service center, and the seat for Buchanan

County. Leading employers are:

- Mosaic Life Care (health care facility with 3,301 employees);
- Triumph Foods (food processing facility; 2,900);
- 139th Airlift Wing-MO Air National Guard (1,663);
- St. Joseph School District (1,635); and
- Boehringer Ingelheim (manufacturer of animal pharmaceuticals; 1,170).

The city's manufacturing presence, which includes meat processing and essential products that are in high demand, continues to thrive. A cereal-ingredient manufacturer is planning to open operations in the city and it is expected to add about 48 jobs.

Based on assessed valuation (AV), the tax base is 40% residential and 32% commercial property. AV increased by 9% to $933 million from tax years 2016-2021. The property tax base is very diverse, with the 10 leading taxpayers making up 7.7% of total AV.

While there are commercial developments underway that could positively impact the economy over time, we think the economy will likely remain weak or very weak during the next few years.

Strong management

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

Highlights include management's:

- Strong revenue and expenditure assumptions for annual budgeting, including traditional line-item budgeting that uses three-to-five years of historical data, and information from a number of external sources;
- Monthly budget-to-actual reports to the city council, with the ability to amend the budget as needed;
- Lack of financial projections;
- Six-year rolling capital improvement plan that identifies funding for projects;
- Formal investment-management policy but no regularly provided investment reports to the council;
- Debt management policy;
- Formal general-fund-balance policy that requires maintaining committed reserves at 10% of budgeted general fund expenditures, for cash flow and contingencies; and
- Formalized cyber security policies and procedures.

Adequate budgetary performance

Despite posting a general fund surplus in 2020, we view the city's budgetary performance as adequate based on recent years of fluctuating performance. After several years of small deficits, fiscal 2020 budget results were positive, generating a surplus of $792,000; surpluses of 1.3% of expenditures in the general fund and 1.0% across all governmental funds in fiscal 2020. Contributing to these results were the $1.8 in CARES Act funding received and spent in 2020.

We adjusted general fund performance by including the revenues and expenditures for the public safety sales tax fund, which supports general fund public safety expenditures. We also included transfers to and from the general fund as revenue and expenditures, except for transfers from the public safety sales tax fund, which we added to revenue.

The city structured its fiscal 2021 general fund budget with a $4.1 million shortfall after transfers due mainly to a $3.9 million riverfront trail project to be paid with accumulated hotel taxes. The deficit has now been reduced by half (estimated $2.26 million) after receiving ARP funds. Management reports sales tax revenues exceed budget by about 5.5%; partially due to conservative assumptions and also the lifting of COVID-19-related restrictions.

For fiscal 2022, the city is budgeting for a $1.4 million surplus driven by a projected increase in sales tax revenues of 2%-3%. Also supporting surplus results are the closure of two sales tax reimbursement agreements (STRAs) economic redevelopment districts, which will be paid in full and the city will no longer pay reimbursements to developers. St. Joseph received $19 million in ARP at the tail end of fiscal 2021 of which $1.2 million-$3.0 million will supplement the fiscal 2022 general fund for potential lost revenues. The remaining funds will be uses for range of purposes, including sewer system repairs ($3 million), aid for local businesses affected by the pandemic, enhancement of low income, funds for a children's museum, and law enforcement. The city will receive another $19 million at the end of fiscal 2022.

St. Joseph relies on revenue from property taxes (24% in fiscal year 2020) and proceeds from the 1.5-cent general and 0.5-cent public safety sales taxes (45%) to fund general and public safety sales tax fund operations. Regarding general revenues for all governmental funds, sales taxes contributed 46% of general governmental revenue in fiscal 2020; we note that this revenue source can be highly volatile during recessions.

Based on management's expectations for fiscal 2021, we anticipate operating results will be mixed over the next few years, but budgetary performance will be strong in fiscal 2022.

Very strong budgetary flexibility

St. Joseph's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 22% of operating expenditures, or $13.4 million.

We included the committed general fund balance to available reserves, along with the assigned and unassigned general fund balances, because the city council intends to use the committed reserves for certain operating expenditures. We also included the restricted fund balance reported for the public safety sales tax fund, because the fund supports general fund public safety expenditures.

Based on management's expectations for fiscal years 2021 and 2022, we expect budgetary flexibility will likely remain at least strong over the near term.

Very strong liquidity

In our opinion, St. Joseph's liquidity is very strong, with total government available cash at 98.5% of total governmental fund expenditures and 8.1x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

Officials reported $85.2 million of unrestricted cash and cash equivalents were available to support operational liquidity at fiscal year-end 2020. In our view, St. Joseph's recent debt issuance demonstrates its strong access to external liquidity.

The city does not have any direct-purchase or variable-rate debt that might pressure liquidity.

Despite management's expectations for general fund shortfalls in fiscal years 2021, we think liquidity will likely remain very strong during the next few fiscal years.

Strong debt and contingent liability profile

In our view, St. Joseph's debt and contingent liability profile is strong. Total governmental fund debt service is 12.2% of total governmental fund expenditures, and net direct debt is 40.1% of total governmental fund revenue. Overall net debt is low at 1.7% of market value, which is in our view a positive credit factor.

Including the series 2021 GO and special obligation bonds, the city has $14 million of GO and about $55.7 million of special obligation debt outstanding. The city expects to issue the remaining $5 million principal amount of GO bonds authorized by the voters at the 2020 election in calendar year 2022. Voters recently approved a sales tax dedicated to park capital improvements of approximately $50 million-$60 million. The tax is effective on Jan. 1, 2022, and it will sunset in 10 years. The city is considering issuing debt to finance a portion of the project using the park sales tax receipts, but will likely secure the debt with an annual appropriation pledge of all legally available funds of the city. We note these are tentative plans; if city officials decide to go through with this issuance it would likely worsen our view of the debt profile through increased debt service carrying charges.

Pension and other postemployment benefits

St. Joseph's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 9.1% of total governmental fund expenditures in 2020. The city made 95% of its required pension contribution in 2020.

We do not view the city's pension liabilities as an immediate source of credit pressure, given our opinion of strong plan funding status and the county's lack of OPEB obligations

The city participated in the following plans:

- Missouri Local Government Employees Retirement System (LAGERS); as of June 30, 2020, the city's LAGERS account was 77% funded, with a net pension liability of $48 million.
- A single-employer defined benefit policy pension system, which is now closed to new employees; as of June 30, 2020 the plan was 112% funded with a $3.9 million net pension asset.
- The city does not subsidize retiree health care.

Although the city has a history of meeting its actuarially determined contributions (ADC), we note the contribution for LAGERS in fiscal 2020 had a deficiency of $425,829 largely as a result of a materially higher ADC in that year. However, we do not consider this a material credit pressure as the LAGERS plan is adequately funded and city's has history of fully funding its ADC. However, we believe that the LAGERS discount rate of 7.25%, which exceeds the 6.0% that we consider more conservative given market conditions, and level-percent-amortization method could lead to some contribution volatility. Despite this, the plan's high funded status significantly mitigates the risks of costs increasing markedly.

St. Joseph does not help pay for retiree health care premiums, but the city allows employees to stay on its health insurance plan upon retirement and continue to pay active premium rates. A portion of the city's contributions to the health care plan for active employees constitutes an implicit subsidy contribution on behalf of its retirees.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of September 23, 2021)		
Missouri Dev Fin Brd, Missouri		
St. Joseph, Missouri		
Missouri Dev Fin Brd (St. Joseph) APPROP		
Long Term Rating	A+/Stable	Affirmed
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Long Term Rating	A+/Stable	Affirmed
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Long Term Rating	A+/Stable	Affirmed
Missouri Dev Fin Brd (St. Joseph) APPROP		
Long Term Rating	A+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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.