S&P Global
Ratings

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Summary:

Liberty, Missouri; Appropriations; General Obligation

Primary Credit Analyst:
Melody W Vinje, Centennial + 1 (303) 721 4163; melody.vinje@spglobal.com

Secondary Contact:
Katelyn A Kerley, Centennial + 1 (303) 721 4683; katelyn.Kerley@spglobal.com

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Credit Profile		
US$6.415 mil GO rfdg bnds ser 2021 due 03/01/2030		
Long Term Rating	AA-/Stable	New
Liberty spl oblig bnds ser 2015 due 03/01/2035		
Long Term Rating	A+/Stable	Affirmed
Liberty spl oblig bnds ser 2019 due 05/01/2039		
Long Term Rating	A+/Stable	Affirmed
Liberty GO		
Long Term Rating	AA-/Stable	Affirmed

Rating Action

S&P Global assigned its 'AA-' long-term rating to the City of Liberty, Mo.'s $6.4 million series 2021 general obligation (GO) refunding bonds. S&P Global Ratings also affirmed its 'AA-' ratings on the city's existing GO debt and 'A+' ratings on the city's special obligation debt. The outlook is stable

The series 2021 bonds are secured by the city's unlimited ad valorem tax pledge. The city will use the proceeds for a current refunding of the series 2012 and 2013 GO bonds for interest cost savings.

We rate several of the city's special obligations bonds; these bonds are considered special obligations of the city payable solely from amounts appropriated each fiscal year by the city. In each case, we rate these bond 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 it has a long track record of appropriating for similar obligations. We see no unusual political, timing, or administrative risk related to the debt payment.

Credit overview

Our rating reflects strong financial profile, slightly offset by an elevated debt burden. Liberty produced surplus results in the past two fiscal years as a result of growth in revenue streams and conservative budgeting. Property tax revenue is on the rise as several of the city's tax increment financing (TIF) districts close and become a part of the city's taxable property, in conjunction with residential and commercial growth. Sales and use tax revenues exceeded the budget through the COVID-19 pandemic, and they are trending above budget in fiscal 2021. In response to retention issues, the city is making public safety salaries more competitive. Management is identifying additional revenue streams to offset this potential budgetary pressure. A potential credit weakness is the city's debt burden, but we view the lack of future debt plans and its robust reserves as mitigating this risk. Given the city's surplus results, conservative budgeting practices, strong reserves, and long-term forecasting we believe operations will remain stable for the next two years.

The rating further reflects our view of the city's:

- Growing local economy located in the Kansas City metropolitan statistical area (MSA), with stable local employment, diverse tax base that has seen steady growth over the past few years and likely to continue with TIF district closures;
- Strong financial profile with reserves above policy requirements, and past two audited years of positive operations (fiscal years 2019 and 2020);
- Weak debt and liability profile, with no additional debt plans in the near term, and a moderate pension and other postemployment benefits (OBEB) lability; and
- Good financial policies and practices under our Financial Management Assessment (FMA) methodology, and adequate institutional framework.

Environmental, social, and governance

We analyzed Liberty's overall environmental, social, and governance (ESG) risks relative to the city's economy, management, budgetary outcomes, and debt and liability profile and determined that all are in line with our view of the sector standard.

Stable Outlook

Upside scenario

We could raise the rating if the city's economic metrics and debt burden improve to levels commensurate with those of higher-rated peers, while maintaining consistency of other credit factors.

Downside scenario

If budgetary results deteriorate and demonstrating weak performance, or the city materially draws down on reserves limiting their financial flexibility we could lower the rating.

Credit Opinion

The city is experiencing steady residential and commercial valuation growth and stable employment through the pandemic

Liberty's tax base continues to expand from TIF closures resulting in more taxable property, residential and commercial growth, and a recent reassessment, increasing valuation by 13% from fiscal years 2020 to 2021. Located in Clay County in the Kansas City MSA, which we consider broad and diverse, Liberty's primary industries are logistics, distribution, and manufacturing. Top city employers include Liberty Hospital (1,600 employees), Liberty School District (1,800), and Hallmark Cards Inc (4,570). Hallmark is expanding its operations within the city and the company anticipates adding 248 jobs. Additionally, the city approved several industrial developments that are estimated to add 5,000 additional full time jobs with the City of Liberty.

Surplus results, historically strong reserves, and strong tax revenues support the budget

Liberty generated surplus results in both fiscal years 2019 and 2020; sales and use tax revenue has been higher than budgeted. To hedge for the unknowns relating to the pandemic, management decreased forecasted revenues 9.1% for budgeted 2020, delayed some capital expenditures, and controlled costs. However, general fund revenues were unaffected, and were about above 21% higher (approximately $4 million) than fiscal 2019 revenues (excluding the $2.93 million of CARES Act funding the city received).

Fiscal 2021 and fiscal 2022 budgets are structured to have a nominally small surplus (about $3,600). Based on strong performance of revenues estimated to be $1.2 million above budget, the city anticipates greater surplus results in fiscal 2021. Our assessment of budgetary performance includes adjustments for both recurring transfers into and out of the general fund as well as one-time capital expenses funded by debt issuances. The city is planning for increased public safety expenditures in fiscal 2027, and it is designating multiple revenue streams to support higher costs. Public safety costs are rising regionally due to the difficulty of retaining police officers and first responders, requiring more competitive salaries. The city will receive a total of $6.48 million in American Rescue Plan funds; the city is considering using the funds for heath, safety and any potential revenue loss in the future.

Reserves and liquidity remain very strong, in our view. The city has a reserve policy requiring a total general fund reserve minimum of 18%-22% of revenue, and has historically exceeded reserve balance limits. Liberty has cash position of $28.4 million legally available to use for operations. Cash and investment balances have been historically strong, and we expect they will remain so.

Strong management with formalized polices in most key areas, embedded cyber-security polices, and adequate institutional framework

Highlights of the FMA 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;
- Formal reserve policy requiring a general fund balance of 18%-22% of revenue, with which it is in compliance; and
- Embedded cyber-security policies and practices to mitigate the city's risk.

High debt service carrying charge, slow amortization, and moderate pension and OPEB costs

Liberty's net direct debt totals $98.2 million, and approximately 56% is scheduled to roll off within the next 10 years. 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 two direct placements, the series 2017 and 2020 special obligation bonds; we considered this debt in our calculation of debt outstanding. These bonds do not contain acceleration risk provisions. The city's total governmental debt service (including pension and OPEB costs) as a percent of expenditures is 27.8%, which we consider to be high. We view the debt score as weak and unlikely to worsen since the city does not have additional debt plans.

Liberty's combined required pension and actual OPEB contributions totaled 4.8% of total governmental fund expenditures in 2020. Of that amount, 4.8 % represented required contributions to pension obligations, and 0% represented OPEB payments as pay-as-you-go liabilities of the city. Liberty made 99% of its annual required pension contribution in 2020. Despite not making 100% of the actuarial required contribution, we do not believe this is a credit pressure given the funding status of the city's portion of the Local Government Employees Retirement System (LAGERS) plan and it has met 100% of our calculation of minimum funding progress.

The city participates in the following plans:

- Missouri LAGERS, a defined benefit pension plan: 86.1% funded (as of June 30, 2020), with a net pension liability totaling $9.37 million;
- A single-employer, defined-benefit OPEB plan: 0% funded with a net OPEB liability of $484,000 (as of Dec. 31, 2020).

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Liberty, Mo.--Key Credit Metrics

	Most recent	Historical information		
		2020	2019	2018
Strong economy				
Projected per capita EBI % of U.S.	102.7			
Market value per capita ($)	90,209			
Population		31,745	31,347	31,184
County unemployment rate(%)		6.1		
Market value ($000)	2,863,691	2,485,667		
Ten largest taxpayers % of taxable value	4.6			
Strong budgetary performance				
Operating fund result % of expenditures		6.8	2.8	6.1
Total governmental fund result % of expenditures		10.1	(1.9)	(5.3)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		23.5	23.0	21.3
Total available reserves ($000)		5,747	4,533	3,994
Very strong liquidity				
Total government cash % of governmental fund expenditures		64.2	66.6	68.9
Total government cash % of governmental fund debt service		280.0	316.9	321.1
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		22.9	21.0	21.5

Liberty, Mo.--Key Credit Metrics (cont.)				
	Most recent	**Historical information**		
		2020	**2019**	**2018**
Net direct debt % of governmental fund revenue	198.7			
Overall net debt % of market value	5.3			
Direct debt 10-year amortization (%)	55.9			
Required pension contribution % of governmental fund expenditures		4.8		
OPEB actual contribution % of governmental fund expenditures		0.0		
Adequate institutional framework				

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

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 November 17, 2021)		
Liberty spl oblig bnds		
Long Term Rating	A+/Stable	Affirmed
Liberty tax-exempt spl oblig bnds		
Long Term Rating	A+/Stable	Affirmed
Liberty APPROP		
Long Term Rating	A+/Stable	Affirmed