S&P Global
Ratings

RatingsDirect®

Summary:
Clayton, Missouri; General Obligation

Primary Credit Analyst:
David H Smith, Chicago + 1 (312) 233 7029; david.smith@spglobal.com

Secondary Contact:
Ying Huang, San Francisco + 1 (415) 371 5008; ying.huang@spglobal.com

Table Of Contents

Summary:

Clayton, Missouri; General Obligation

Credit Profile		
US$10.785 mil GO rfdg bnds ser 2022 due 03/15/2034		
Long Term Rating	AAA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the City of Clayton, Mo.'s $10.8 million series 2022 general obligation (GO) refunding bonds. The outlook is stable.

Securing the series 2022 GO bonds are revenue from ad valorem taxes, levied without limitation. Proceeds from the series 2022 GO bonds will be used to refund the city's series 2014 bonds for interest cost savings.

The city's GO bonds are eligible to be rated above the sovereign because we believe the city could maintain stronger credit characteristics than the U.S. in a stress scenario. As per our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, the city's revenue is predominantly locally derived, with independent taxing authority and independent treasury management from the federal government.

Credit overview

With access to the broad and diverse St. Louis metropolitan statistical area (MSA), the city benefited from strong economic growth, which, in conjunction with its strong financial management policies and practices, has supported stable operations and the maintenance of very strong reserves and liquidity. Further enhancing the city's credit profile, in our view, is Clayton's strong debt and contingent liability profile.

The rating reflects our view of the city's:

- Extremely strong market value per capita, highlighted by the presence of vibrant commercial sector that remained a strong anchor for the city's economy despite the pandemic;
- Stable operational performance, reflecting a proactive managerial approach that mitigated the adverse fiscal effects of the pandemic;
- Strong financial policies and practices under our Financial Management Assessment (FMA); and
- Strong debt and contingent liability profile, highlighted by a low overall net debt burden and rapid amortization.

Environmental, social, and governance

We analyzed the city's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

Should city's budgetary performance materially deteriorate because of a mismatch of revenues and expenditures, leading to a trend of fiscal imbalances, we could lower the rating.

Credit Opinion

Very strong economy, with access to the broad and diverse St. Louis economy, with continued commercial growth expected

Clayton serves an affluent community and is the seat of St. Louis County, eight miles west of the City of St. Louis. The city is home to several large corporate, financial, and legal entities that support the local economy. Despite the effects of the pandemic, the city reports that it has not experienced a material decline in leased office space of the large commercial buildings that are located in Clayton.

Officials report that the city continues to see strong growth with its largest employer, health care consulting firm Centene Corp., which maintains multiple office buildings in the city and has more than 2,400 employees. In terms of major new developments, a 15-story luxury senior living center was completed in November 2021. We anticipate that the city's overall trend of market value growth will remain largely positive given its ongoing development.

Very strong management, with strong financial policies and practices

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating our view that financial practices are strong, well embedded, and likely sustainable.

Highlights of the city's financial management policies and practices include the use of both historical data as well as consultations with a number of outside sources to develop financial forecasts, quarterly reporting to the board on both budget-to-actual performance and investment holdings, maintenance of formal investment and debt management policies, maintenance of detailed long-term financial and capital improvement plans, and adherence to a formal reserve policy to maintain at least 25% of expenditures on hand. Clayton's reserve policy was designed to provide the city sufficient time to adjust operations to deal with unforeseen adversities and opportunities and to meet the city's cash flow needs. We believe Clayton's policy to maintain very strong reserves will provide the city with important liquidity in the event it ever suffers a natural disaster or emergency expense.

Clayton's adequate budgetary performance is supported by very strong budgetary flexibility and liquidity

In assessing the city's budgetary performance, we note that we made several adjustments to the city's financial data to better analyze its typical operations and facilitate comparisons with its peers. For instance, we treated recurring transfers into and out of the general fund as revenue and expenditures, respectively, and we adjusted for one-time capital expenditures funded by bond proceeds.

With respect to unaudited fiscal 2021 (fiscal year-end Sept. 30), officials estimate that the city will finish the year with an approximate $928,000 general fund surplus. Management conservatively structured the 2021 budget with a $1.3

million deficit because of the pandemic, and officials note that sales tax revenue was $400,000 higher than actual revenue in fiscal 2020. The city received approximately $1.7 million in funding pursuant to the American Rescue Plan Act in fiscal 2021, and it expects to receive a similar allocation next year.

For fiscal 2022, the city's general fund budget reflects a $160,000 deficit, as the city is restoring most of its pre-pandemic services this fiscal year. The city anticipates receiving greater revenues in January and February 2022 than those accrued at the beginning of the fiscal year, as revenues are typically higher during these months. We understand that the city might implement a deficit-reduction plan as expenditures in future years are expected to outpace revenue.

In fiscal 2020, the city reported a 2.8% general fund surplus, which was partially driven by holding certain positions vacant during the pandemic. Lending stability to the city's operations is the diversity of its revenue streams, with the three largest being property taxes (26% of general fund revenue), public utility licenses (18%) and sales taxes (17%) in fiscal 2020.

Clayton's budgetary flexibility has historically been very strong, with available reserves over 50% of expenditures the past three audited fiscal years. In addition, the city's liquidity is also very strong. Our assessment of the city's liquidity accounts for investments with maturities of one year or less but excludes unspent bond proceeds. The city is not a party to any privately placed or direct-purchase agreements that would pose a risk to its liquidity.

Strong debt and contingent liability profile, with low overall net debt as a percent of market value and rapid amortization

Bolstering Clayton's debt profile, in our view, are the city's low overall net debt as a percent of market value and rapid amortization, which we consider positive credit factors. The city does not have any significant new money debt plans that will materially increase its debt burden during the next two years.

The city's pension plans are well funded and contributions are modest

The city maintains two single-employer, defined benefit pension plans. The Non-Uniformed Employees' Retirement Fund is 88.1% funded with an estimated liability of $2.5 million, while the Uniformed Employees' Pension Fund is 96.9% funded with an estimated liability of $1.5 million. In 2020, the city exceeded its minimum funding progress metric for the Uniformed Employees' Pension Fund, but it fell short of minimum funding progress for the Non-Uniformed plan at 90.7%. Given that the plans are well funded and that contributions make up a comparatively small portion of the city's budget, we do not anticipate that pension obligations will pressure the city's finances within the next several years.

The city also provides other postemployment benefits in the form of medical and prescription drug coverage for eligible retirees, which it funds on a pay-as-you-go basis. The estimated liability totaled approximately $1.6 million under the plan in 2020, and contributions remain a very small portion of the city's budget.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020