

# RatingsDirect®

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## Summary:

# Clayton, Missouri; Appropriations; General Obligation

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Credit Profile		
US\$15.0 mil GO bonds ser 2014 due 03/15/2034		
Long Term Rating	AAA/Stable	New
US\$6.92 mil spl oblig rfdg bnds ser 2014 due 03/15/2019		
Long Term Rating	AA+/Stable	New

Rationale

Standard & Poor's Rating Services assigned its 'AAA' long-term rating to Clayton, Mo.'s 2014 general obligation (GO) bonds. At the same time, we assigned our 'AA+' rating to the city's 2014 special obligation refunding bonds subject to annual appropriation. Additionally, we affirmed our 'AA+' long-term rating on the city's outstanding special obligations bonds, as well as our 'AAA' issuer credit rating (ICR). The outlook on all ratings is stable.

The \$15 million 2014 bonds will constitute a GO of the city and will be payable from ad valorem taxes, levied without limitation. The proceeds will fund the costs of streets, sidewalks, and lighting improvements

The \$7 million special obligation refunding bonds are being used to refund the city's 2005A and 2007 special obligation refunding bonds. The city has covenanted to annually appropriate revenues from any legally available funds to pay debt service on its special obligation bonds. Our 'AA+' rating on the special obligation bonds is one notch below the 'AAA' ICR, reflecting annual appropriation risk and the lack of a full faith and credit property tax pledge.

The ratings reflect our assessment of the following factors for the city, specifically its:

- Very strong economy, which benefits from a broad and diverse economy;
- Very strong budgetary flexibility;
- Weak budgetary performance;
- Very strong liquidity;
- Very strong management conditions; and
- Very weak debt and contingent liability.

The city's economy is very strong, in our view, with projected per capita effective buying income at 169.4% of the U.S. and per capita market value of \$229,968. Clayton serves an affluent community of approximately 16,000 and is the seat of St. Louis County, eight miles west of the city of St. Louis. In addition to finding employment in the city's solid economic base, residents also benefit from the city's participation in the broad and diversified St. Louis metropolitan statistical area (MSA).

We consider Clayton's budgetary flexibility very strong, with available reserves, including committed reserves in the equipment replacement fund, exceeding 70% of expenditures in the past four years. We understand that the city has

been spending down some of its excess reserves to support its operating and capital needs. For the 2013 fiscal year (ended Sept. 30), available reserves totaled \$18.6 million, or 74.7% of expenditures plus routine transfers into and out of the general fund. Although the city anticipates reporting a general fund drawdown of approximately \$.576 million in fiscal 2014, we believe that available reserves will remain well above its formal fund balance policy of 25% of expenditures for the foreseeable future.

In our opinion, Clayton's budgetary performance is weak, with consecutive deficits in the general and total governmental funds for the past few years, due in part to cash funding recurring capital investment and revenue growth not keeping pace with expenditures. We understand management chose to spend down reserves at the expense of cost-cutting, based on how robust the reserve position had grown, and that plans are in place to return the budget to balance. Excluding temporary general fund transfers and capital spending funded by debt proceeds, the city ended fiscal 2013 (audited) with a general fund deficit of 7.6% of adjusted expenditures and a total governmental funds deficit of 9.3% of adjusted total expenditures. Fiscal 2014 performance should improve (though remain at a deficit), considering cost-cutting measures and lower annual debt service transfers based on a tax levy for retired GO debt now being applicable to certificates of participation (COPs). The city plans to balance the fiscal 2015 budget. In April 2014, voters approved a sales tax increase, which is expected to generate an additional \$750,000 annually.

Supporting the city's finances is very strong liquidity, with total government available cash and short-term investments at 40% of adjusted total governmental fund expenditures and at more than 225% the total debt service. Based on past debt issuance, we believe that the city has strong access to capital markets to provide for liquidity needs if necessary.

We consider the city's management conditions very strong, with "strong" financial practices under our Financial Management Assessment methodology, indicating that practices are strong, well embedded, and likely sustainable. We understand that the city annually prepares multiyear projections for its operating funds and capital projects, and there are formal debt, investment, and reserve policies.

The city's debt and contingent liability profile is very weak, in our opinion, with total governmental fund debt service at 17.7% of adjusted total governmental fund expenditures, and net direct debt at 4x total governmental fund revenue. The city intends to retire 60% of its direct debt over the next 10 years. We understand that management does not have additional debt plans in the near term.

Clayton maintains two single-employer, defined-benefit pension plans, The Nonuniformed Employees' Retirement Fund (NUERF) and the Uniformed Employees' Retirement Fund (the UERF). The city's 2013 contribution to NUERF (84% funded) and UERF (81% funded) were \$1.6 million, or 4.9% of adjusted total governmental fund expenditures. The city sponsors and administers a single-employer other postemployment benefit (OPEB) plan. The annual required contribution for the city's OPEBs was \$88,770 in fiscal 2013, of which the city contributed \$31,000.

We consider the Institutional Framework score for Missouri cities adequate.

## Outlook

The stable outlook reflects our view that Clayton's very strong management conditions, coupled with the planned

expenditure cuts and the proposed sales tax increase, will support its very strong budgetary flexibility and liquidity for the next few years. The city's very strong economic conditions and its participation in the broad and diversified St. Louis MSA also provide stability to the outlook.

Although we do not anticipate lowering the rating over the two-year outlook period, we could consider a lower rating if the city significantly spends down its available reserves to support its operations and capital spending.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Missouri Local Governments

Ratings Detail (As Of September 16, 2014)		
Clayton spl oblig bnds		
Long Term Rating	AA+/Stable	Affirmed
Clayton spl oblig bnds		
Long Term Rating	AA+/Stable	Affirmed
Clayton spl oblig rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Clayton spl oblig rfdg bnds & taxable spl oblig rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Clayton ICR		
Long Term Rating	AAA/Stable	Affirmed

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