

RatingsDirect®

Summary:

Liberty, Missouri; Appropriations; General Obligation

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Credit Profile

US\$15.675 mil spl oblig bnds ser 2015 due 03/01/2035

Long Term Rating AA-/Stable New

Liberty spl oblig rfdg & imp bnds ser 2013 due 12/01/2023

Long Term Rating AA-/Stable Affirmed

Liberty GO

Long Term Rating AA/Stable Affirmed

Liberty Pub Fac Auth, Missouri

Liberty, Missouri

Liberty Pub Fac Auth (Liberty) lsehold rev rfdg & imp bnds (Liberty Comnty Ctr) ser 2003 dtd 01/15/2003 due 04/01/2004-2013 2018

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Rationale

Standard and Poor's Ratings Services assigned its 'AA-' long-term rating to Liberty, Mo.'s series 2015 special obligation bonds. At the same time, Standard & Poor's affirmed its 'AA-' rating on the city's existing appropriation bonds and affirmed its 'AA' rating on the city's existing general obligation (GO) debt. The outlook is stable.

The 'AA-' rating on the city's special obligation and appropriation debt is one notch below the GO rating due to annual appropriation risk and the absence of an unlimited ad valorem tax pledge.

The series 2015 special obligation bonds are considered special obligations of the city payable solely from amounts appropriated each fiscal year by the city. The city intends to pay the bonds from sales tax revenues. City officials will use the 2015 special obligation bond proceeds for street reconstruction and park system improvements.

The rating reflects our view of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance, with an operating deficit in the general fund and a slight operating deficit at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash of 37.6% of total governmental fund expenditures and 2.2x governmental debt service, and access to external liquidity that we consider exceptional;
- Very weak debt and contingent liability position, with debt service carrying charges of 17.0% of expenditures and

net direct debt that is 351.7% of total governmental fund revenue; and

- Adequate institutional framework score.

Strong economy

We consider Liberty's economy strong. The city, with an estimated population of 30,329, is located in Clay County in the Kansas City, MO-KS MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 118% of the national level and per capita market value of \$66,425. Overall, the city's market value grew by 0.6% over the past year to \$2.0 billion in 2014. The county unemployment rate was 5.4% in 2014.

The city is a primarily residential community approximately 15 miles northeast of downtown Kansas City and serves as the seat of Clay County. Top city employers include: Liberty School District (1,413 employees), Liberty Hospital (1,400), Hallmark Cards, Inc. (warehouse distribution, 732), Clay County (404), and RR Donnelly (publishing, 330). The city's 10 largest taxpayers represent 4.8% of assessed valuation (AV). We do not anticipate that the city's economy score will change 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 to the FMA include the city's:

- Strong revenue and expenditure assumptions for annual budgeting;
- Quarterly reporting to the finance committee (including the mayor and two council members) on budget-to-actual performance, with monthly reporting on sales tax performance to the entire council;
- Long-term financial planning that includes detailed multiyear projections extending at least five years out for major funds and are updated several times a year;
- Investment policy with monthly reporting to the council on investment performance; and
- Formal reserve policy requiring a general fund balance of between 18% and 22% of revenues.

The city does not have a debt management policy.

Adequate budgetary performance

Liberty's budgetary performance is adequate in our opinion. The city had deficit operating results in the general fund of negative 3.9% of expenditures, and slight deficit results across all governmental funds of negative 0.6% in fiscal 2014.

We have adjusted general fund revenues to account for routine transfers, one-time revenues, and one-time transfers in and expenditures to account for the spending of bond proceeds. We have similarly adjusted total governmental funds revenues to account for one-time revenues and expenditures to reflect the spending of bond proceeds. We anticipate that fiscal 2015 (year ending Dec. 31) general fund performance will reflect a deficit of 0.8% of general fund expenditures, after adjusting for one-time expenditures associated with information technology (IT) improvements. We expect that total governmental funds results will reflect a deficit for the year, though we also note that this will primarily reflect one-time capital projects and the spending of bond proceeds. Officials indicate that they anticipate adopting a budget with a slight general fund surplus in fiscal 2016. Based on current projections, we believe that the city's budgetary performance will likely remain adequate in the near term.

Very strong budgetary flexibility

Liberty's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 21% of operating expenditures, or \$3.5 million.

We have adjusted the general fund balance to exclude a small, questionable receivable that management indicates may not be paid back to the general fund. Current fiscal 2015 estimates show a decline in the general fund of approximately \$375,000 due to one-time IT improvements, reduced municipal court revenues, and declines in telephone and cellular phone franchise fee revenues. Liberty has a formal fund balance policy requiring a general fund reserve between 18% and 22% of revenues, and we understand that the city intends to continue adhering to this policy. We expect reserves to remain very strong for the next few years.

Very strong liquidity

In our opinion, Liberty's liquidity is very strong, with total government available cash of 37.6% of total governmental fund expenditures and 2.2x governmental debt service in 2014. In our view, the city has exceptional access to external liquidity if necessary.

We have adjusted the city's cash and investments to exclude unspent bond proceeds and restricted cash at the end of fiscal 2014. Our determination that the city has exceptional access to external sources of liquidity is based on its record of frequent capital market access during an extended period and its issuance of a variety of types of debt, including enterprise-supported revenue bonds, special obligation and special assessment bonds, and tax-increment revenue bonds. In May 2015, the city refinanced its series 2004 tax-increment revenue bonds (\$4.4 million outstanding) via a private placement. The bonds are payable solely from payments in lieu of taxes (PILOTs) and economic activity tax revenues appropriated annually as well as funds in the bonds' debt service reserve fund, with no recourse to city general revenues. The trust indenture does include an acceleration clause as a remedy on default; however, given the standard covenants and events of default, we do not consider the bonds a significant source of liquidity risk.

Very weak debt and contingent liability profile

In our view, Liberty's debt and contingent liability profile is very weak. Total governmental fund debt service is 17.0% of total governmental fund expenditures, and net direct debt is 351.7% of total governmental fund revenue.

In addition to the \$12.9 million in GO debt issued earlier this year and the \$16.8 million being offered with this current issue, the district recently issued \$40 million in tax-increment debt. The city also has plans to issue approximately \$2.5 million in special obligation debt for equipment and new ambulances as well as \$78 million in state revolving fund debt supported by enterprise funds within the two-year outlook horizon. We note that while debt supported solely by enterprise revenues is not included in our net direct debt calculation, debt supported by, for example, sales tax and tax-increment revenue is. The increased level of debt has caused Liberty's net direct debt as a percentage of total governmental funds revenue to more than double to 352% from 162%. In addition, the additional debt has led to the city's debt amortization within 10 years to decline to 44% from 73%. Based on the increased debt burden, we have revised the city's debt and contingent liability score to very weak from weak and we do not foresee an improved score in the near term.

Liberty's pension contributions totaled 4.9% of total governmental fund expenditures in 2014. The city made 99% of its annual required pension contribution in 2014.

Liberty participates in the Missouri Local Government Employees' Retirement System, a defined-benefit pension plan. The most recent valuation shows the plan with a 69% funded ratio and an \$8.8 million unfunded liability. We understand that the plan's funded ratio declined from 83% in 2012 to 66% in 2013 due to the city upgrading its plan benefits. Management is not projecting significant annual contribution increases in the near term, and given the city's already relatively low annual costs, we do not currently consider the plan's budgetary impact elevated. Liberty does not pay for any portion of retiree health care premiums, but allows employees to stay in its health insurance plan after retirement and continue to pay active premium rates.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate. See the institutional framework scores for local governments in Missouri.

Outlook

The stable outlook reflects our expectation that Liberty will continue to demonstrate adequate budgetary performance and maintain stable reserves during the two-year outlook period.

Upward scenario

Given our expectation that the debt profile will likely remain very weak, we do not expect to raise the rating within the two-year outlook horizon. However, if the city's economic characteristics were to significantly improve, we could raise the rating.

Downward scenario

A lower rating is possible if the city's debt profile were to continue to deteriorate in such a manner that we no longer viewed its overall credit quality as commensurate with peers at the current rating. In addition, if the city were to experience weaker budgetary performance or flexibility, or if we were to see material decline in another rating factor, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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 October 13, 2015)

Ratings Detail (As Of October 13, 2015) (cont.)

Liberty spl oblig

Long Term Rating

AA-/Stable

Affirmed

Many issues are enhanced by bond insurance.

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