

RatingsDirect®

Summary:

Monett City, Missouri; Appropriations; General Obligation

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Summary:

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Credit Profile

Monett City certs of part		
<i>Long Term Rating</i>	A/Stable	Affirmed
Monett City ICR		
<i>Long Term Rating</i>	A+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services revised the outlook to stable from positive on Monett City, Mo. At the same time, we affirmed our 'A+' issuer credit rating (ICR) on the city, as well as our 'A' long-term rating on its taxable certificates of participation (COPs).

We revised the outlook to stable from positive based on the city's inconsistent budgetary performance, with fiscal 2015 total governmental funds operating results deteriorating from the previous year and deficits expected for both general and total governmental funds in fiscal 2016.

The city's covenant to annually appropriate rent payments from any legally available funds sufficient to pay debt service secures the COPs. Our 'A' rating on the COPs is one notch below the 'A+' GO rating given the annual appropriation risk and lack of a full faith and credit property tax pledge.

The rating reflects Monett City's:

- Weak economy, with projected per capita effective buying income (EBI) at 84.9% of the national level and market value per capita of \$56,104;
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 at 98% of operating expenditures;
- Very strong liquidity, with total government available cash at 74.9% of total governmental fund expenditures, 2.4x governmental debt service, and access to external liquidity we consider exceptional;
- Adequate debt and contingent liability position, with debt service carrying charges at 31.8% of expenditures, net direct debt at 62.3% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization, with 72.2% of debt scheduled to be retired in 10 years; and
- Adequate institutional framework score.

Weak economy

We consider Monett City's economy weak. The city, with an estimated population of 9,195, is in Barry and Lawrence counties, 48 miles southwest of Springfield and 39 miles southeast of Joplin. The city has a projected per capita EBI of 84.9% of the national level and per capita market value of \$56,104. Overall, market value grew by 2.1% over the past year to \$515.9 million in 2016. The weight-averaged unemployment rate of the counties was 6.0% in 2014.

We understand that most residents work in the city area with some commuting to Springfield or Joplin. Eight of the top ten employers in the city are manufacturers.

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.

Management considers several years' historical data to determine both revenue and expenditure assumptions. It provides the city council with quarterly budget-to-actual reports and the city can amend its budget at any time throughout the year. The city does not maintain a long-term financial plan but does maintain five- and ten-year long-term capital improvement plans, updating them at least annually for use when developing the budget. Monett City does not have its own debt management policy, but does have an investment management policy with investment holdings provided to council in the quarterly financial reports. The city has a formal reserve policy to maintain an unreserved general fund balance of 8%-10% of operating revenues, which it is currently meeting.

Adequate budgetary performance

Monett City's budgetary performance is adequate, in our opinion. The city had surplus operating results in the general fund at 9.4% of expenditures, but a deficit result across all governmental funds of 8.1% in fiscal 2015.

Including interfund transfers from utility funds and excluding one-time revenues and capital expenditures, the city's fiscal 2015 general fund performance improved in recent years due, in part, to approximately \$321,000 of recurring additional sales tax associated with the early retirement of Tax-Increment Finance (TIF) District No. 1 debt. After adjusting for the early retirement of that debt and the refinancing of TIF No. 2 debt, total governmental funds performance remains negative, deteriorating from the previous year. Due to unanticipated expenses and cost overruns, management expects fiscal 2016 results to include a general fund deficit (after transfers) of approximately \$326,000 and a total governmental funds deficit of approximately \$69,000. For fiscal 2017, management projects a \$24,000 general fund surplus and a \$395,000 total governmental funds surplus.

Very strong budgetary flexibility

Monett City's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 at 98% of operating expenditures, or \$7.7 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The available fund balance includes \$1.7 million (21.8% of expenditures) in the general fund and \$6.0 million (76%) that is outside the general fund but legally available for operations.

Consistent with other Missouri municipalities, the city considers the cash balance in its enterprise funds for

waterworks, electric, sanitation, and fiber available for operations without the obligation to repay.

Very strong liquidity

In our opinion, Monett City's liquidity is very strong, with total government available cash at 74.9% of total governmental fund expenditures and 2.4x governmental debt service in 2015. In our view, the city has exceptional access to external liquidity if necessary.

At the end of fiscal 2015, the most recently audited year, the city had \$7.5 million of cash and cash equivalents (including both governmental and enterprise funds). We understand it has no significant contingent liabilities that could affect its future liquidity position, which we therefore expect to remain very strong. The city has demonstrated exceptional access to the capital markets with a 15-year history of issuing a variety of types of debt, including GO, TIF, and revenue bonds. The city follows state guidelines for its investment management policy and does not pursue aggressive use of investments.

Adequate debt and contingent liability profile

In our view, Monett City's debt and contingent liability profile is adequate. Total governmental fund debt service is 31.8% of total governmental fund expenditures, and net direct debt is 62.3% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, and approximately 72.2% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

We understand the city is considering a potential debt issuance of \$1.25 million to \$3.0 million in the next two years for either the reconstruction of its existing Olympic-size swimming pool or the construction of a new aquatic facility. The city would pay for the debt with a voter-approved dedicated revenue stream from a parks sales tax. Management reported no direct-purchase or private-placement debt.

Monett City's pension contributions totaled 5.9% of total governmental fund expenditures in 2015. The city made 100% of its annual required pension contribution in 2015.

The city participates in the Local Government Employees Retirement System, an agent multiemployer public employee retirement system. The plan is 94% funded. The city does not provide retiree health care benefits.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Outlook

The stable outlook on the ICR and long-term rating reflects our view of the city's consistently very strong budgetary flexibility and liquidity due to its history of maintaining at least 30% available reserves, and its strong management practices and policies. We do not anticipate changing the rating in the two-year outlook period based, in part, on the expectation that the availability of enterprise fund revenue will continue to support general fund operations. In addition, we do not anticipate major changes in the tax base, market value, or unemployment figures that would change the underlying economic characteristics of the city.

Upside scenario

If the economy factor score improves to adequate or better, which could result if incomes and market value per capita improve, combined with stronger budgetary performance, we could potentially raise the rating.

Downside scenario

A lower rating could result if the city's budgetary performance weakens or its debt burden deteriorates.

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

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.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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