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**Summary:**

# Monett, Missouri; Appropriations; General Obligation

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# Summary:

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| Credit Profile | | |
|---|---|---|
| Monett City certs of part | | |
| *Long Term Rating* | A/Positive | Affirmed |
| Monett City ICR | | |
| *Long Term Rating* | A+/Positive | Affirmed |

## Rationale

Standard & Poor's Ratings Services revised its outlook on Monett, Mo.'s outstanding debt to positive from stable, based on our local GO criteria released Sept. 12, 2013, and our expectations of improving budgetary performance in fiscal years 2014 and 2015. At the same time, we affirmed our 'A+' issuer credit rating (ICR) and our 'A' long-term rating on the city's series 2010 taxable certificates of participation (COPs).

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 our assessment of the following factors for the city:

- In our opinion, Monett's budgetary flexibility remains very strong, with available reserves (unassigned general fund balance and unrestricted electric, sanitation, and fiber utility funds' cash balance) above 30% of general fund expenditures for the past three years. Management reports that the cash balances in these three utility funds can be used to support general fund operations, if required, with approval from the city council. Audited fiscal 2013 (March 31) available reserves were $4.3 million or 54.6% of adjusted general fund expenditures. The unassigned general fund alone was $1.04 million (13.2% of expenditures). Management reports that it expects to end fiscal years 2014 and 2015 with small general fund drawdowns, mainly to support capital spending. However, we believe the city will maintain very strong budgetary flexibility for the next couple of years, bolstered by its utilities cash reserves.
- Supporting the city's finances is very strong liquidity, with total government unrestricted cash and cash equivalents, excluding unspent debt proceeds, at 49.9% of total governmental fund expenditures and 286% of debt service. We believe the city has exceptional access to external liquidity, supported by its history of various debt issuances at regular intervals over the past 20 years.
- We consider Monett's budgetary performance adequate. Including interfund transfers from utility funds and excluding capital outlay financed with debt, the city ended fiscal 2013 with general fund and total governmental funds deficits of 6.4% and 10% of expenditures, respectively. The city reports that the electric, waterworks, sewer, and fiber utility funds make annual transfers, which includes transferring 10% of gross utility revenue in lieu of taxes, to support general fund expenses. For fiscal 2014, the city budgeted for close to break-even operations in the general fund and management currently expects about a $50,000 deficit due to higher capital spending and lower-than-anticipated revenue. The preliminary fiscal 2015 budget includes a general fund surplus of about

$250,000, before $300,000 in one-time capital expenditures. Utility transfers (42%) and sales taxes (33%) are the largest sources of general fund revenue and have remained relatively stable in the recent years.

- We view the city's management conditions as strong with good financial practices. We understand Monett has a formal policy to maintain at least 8% to 10% of general fund revenue in reserves and management expects to continue meeting this target over the next two to three years.
- In our view, the city's economy is weak, with the projected per capita effective buying income at 76.3% of U.S. and per capita market value of $61,597. The city serves an estimated population of 8,200 in Barry County. Monett is 48 miles southwest of Springfield, but we understand that most of the population works within or near the city.
- The city's debt and contingent liability profile is weak, in our opinion, with total governmental fund debt service at 17.5% of total governmental fund expenditures, and net direct debt, excluding debt supported by utility revenue, at 95.3% of total governmental fund revenues. We consider debt amortization rapid, with 70% of direct debt set to mature over the next 10 years. Management reports that it has no plans to issue additional GO debt in the next two to three years, but it may issue some appropriation debt and utility revenue bonds.
- The city participates in the Local Government Employees Retirement System, an agent multiple-employer public employee retirement system, and its fiscal 2013 contribution translated to 6.8% of total governmental fund expenditures. As of Feb. 29, 2012, the pension plan was 83% funded with an unfunded actuarial accrued liability of $2.2 million. The city provides no retiree health care benefits.
- We consider the institutional framework score for Missouri cities as adequate. (See the Institutional Framework score for Missouri.)

## Outlook

The positive outlook on the ICR and long-term rating reflects our expectation of a one-in-three chance that we could raise the rating within the two-year outlook period. Based on management's fiscal 2014 projections and the preliminary fiscal 2015 budget, as well as a recent history of positive budget-to-actual variance, we expect operating results to be more consistently balanced and for the budgetary performance assessment to stabilize at adequate. Should this be the case and if liquidity and flexibility remain very strong, we will likely raise the rating. At the same time, should budgetary performance weaken or fall short of expectations, we would likely revise the outlook to stable.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 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

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