

RatingsDirect®

Summary:

University City, Missouri; Appropriations; General Obligation

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Credit Profile

University City		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
University City rfdg certs of part		
<i>Long Term Rating</i>	AA/Stable	Upgraded
University City spl oblig		
<i>Long Term Rating</i>	AA/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'AA+' from 'AA' on University City, Mo.'s general obligation (GO) bonds, based on the application of our local GO criteria released Sept. 12, 2013. We also raised our long-term rating to 'AA' from 'AA-' on the city's appropriation debt. The rating on the appropriation debt is set one notch below the GO rating, reflecting annual appropriation risk. The outlook is stable.

The city's full faith credit and resources pledge secures the GO bonds. A pledge of semiannual lease rental payments, which are subject to annual appropriation, secures the city's appropriation debt.

The 'AA+' long-term rating reflects our assessment of the following factors for the city:

- University City's local economy is strong, in our view, with projected per capita effective buying income at 124% of the national average and per capita market value at roughly \$77,200. University City is a mature, first ring suburb located just west of downtown St. Louis in St. Louis County. The 2012 unemployment rate in St. Louis County was 6.7%. We believe residents benefit from participation in the broad and diverse St. Louis metropolitan statistical area, which spans Missouri and Illinois. The city is adjacent to the campus of Washington University and is home to an estimated 20% of the university's estimated 15,000 student population. The city is mostly built out, but we understand that redevelopment projects remain ongoing. The 10 leading taxpayers in the city represent 4.0% of total assessed valuation (AV), which we consider very diverse, and we understand that the retail sales tax base is very diverse as well, with no reliance on any one major retailer. AV decreased 5.4% in fiscal 2014, but management reports it will stabilize or increase slightly during the next several years.
- University City's management conditions are strong, in our view, with "good" financial practices under our Financial Management Assessment (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. Officials review three to five years of trend information and collect data from various outlets when completing the annual zero-based budget. The board receives budget reconciliation reports monthly, and the budget can be amended as needed. The city updates long-term financial forecasts and a capital improvement plan annually. The city adheres to state debt and investment management policies, as well as to a formal resolution to maintain general fund reserves at a level equal to at least 17% of expenditures.

- We believe University City's budgetary flexibility is very strong, with available reserves at an estimated \$17.9 million, or 65.9% of operating expenditures in fiscal 2013 (June 30). The total unassigned and assigned fund balance was \$19 million (70.1%), but this includes roughly \$1.1 million in long-term receivables that we have adjusted out of available reserves. In fiscal 2014, the city used a portion of its reserves for one-time capital projects, and it reports that the unassigned general fund balance is projected to decrease to \$16 million (60% of expenditures). The city does not plan to draw down reserves in fiscal 2015. We believe reserves will remain above 30% of expenses during at least the next two years, which is a credit strength, in our opinion.
- In our opinion, very strong liquidity supports University City's finances, with total government available cash to governmental funds expenditures at 73% and cash to debt service at more than 20x. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary.
- In our view, University City's budgetary performance is strong overall. Between fiscal years 2008 and 2012, the city posted five consecutive surpluses in both the general fund and total governmental funds. The city ended fiscal 2013 with a deficit of 1.4% for the general fund and a deficit of 1.9% for the total governmental funds, both of which were the result of a planned drawdown for capital projects. In fiscal 2014, the city budgeted for a \$3.6 million general fund deficit to fund one-time capital projects, but management reports the deficit will be smaller as some of the projects were not completed. Management anticipates ending fiscal 2015 with a small surplus in the general fund, and plans to build reserves during the next several years. General fund revenues consist mostly of sales (32.8%), gross receipts (25.2%), and property (12.8%) taxes. The city's sales taxes include a 1% general tax, a 0.5% parks and storm water tax, a 0.5% capital improvement tax, a 0.25% fire protection tax, and a 0.25% economic development tax. The sales taxes do not sunset, and all but the economic development tax flow into the general fund.
- University City's debt and contingent liability profile is very strong, in our view. Total governmental fund debt service is 3.3% of total governmental funds expenditures and net direct debt is 22.9% of total governmental funds revenue. Approximately 100% of the debt is repaid within 10 years, which we consider a credit strength. The city maintains two single-employer defined benefit pension plans, one for uniformed and one for nonuniformed employees. The city contributed more than 100% of annual required contributions for the nonuniformed plan and 84% for the uniformed plan in fiscal 2013. Both plans have funded ratios in excess of 78%. The city also pays postemployment health care benefits on a pay-as-you-go basis. The city's unfunded accrued liability for retiree health care benefits is \$448,000. Combined, annual pension and retiree health care costs amount to \$1.5 million, or 5.1% of total governmental funds expenditures.
- We consider the Institutional Framework score for Missouri municipalities adequate. See Institutional Framework score for Missouri.

Outlook

The stable outlook reflects our anticipation that the city will maintain at least strong budgetary performance and very strong budgetary flexibility and liquidity. We do not anticipate changing the ratings within the two-year outlook horizon because we believe that management, supported by strong practices and policies, will make the budgetary adjustments it deems necessary to maintain balanced operations in the general fund and very strong budgetary flexibility. However, if in the long term budgetary performance unexpectedly worsens and the city's debt burden substantially increases, we could lower the ratings. We do not anticipate that the city's income levels will materially increase within the next two years; this limits upward rating potential.

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

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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