STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Liberty, Missouri; Appropriations; General Obligation

Primary Credit Analyst:
Katilyn Pulcher, ASA, CERA, Chicago (1) 312-233-7055; katilyn.pulcher@standardandpoors.com

Secondary Contact:
Elizabeth Bachelder, Chicago (1) 312-233-7006; elizabeth.bachelder@standardandpoors.com

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Credit Profile		
US$6.175 mil GO bnds ser 2013 due 03/01/2030		
Long Term Rating	AA/Stable	New
US$2.525 mil spl oblig rfdg & imp bnds ser 2013 due 12/01/2023		
Long Term Rating	AA-/Stable	New

Rationale

Standard & Poor's Ratings Services raised its long-term rating on Liberty, Mo.'s previously rated general obligation (GO) bonds to 'AA' from 'AA-' and its long-term rating and underlying rating (SPUR) on the city's appropriation-backed debt to 'AA-' from 'A+'. The rating action is based on our recently released local GO criteria. At the same time, we assigned our 'AA' rating to Liberty's series 2013 GO bonds and our 'AA-' rating to its series 2013 special obligation refunding and improvement bonds. The outlook on all the ratings is stable.

A pledge of the city's full faith credit and resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure the GO bonds. The 'AA-' rating on the city's appropriation-backed debt is one notch below the GO rating due to the annual appropriation risk and lack of a full faith and credit or unlimited ad valorem tax pledge. We understand city officials intend to use series 2013 special obligation bond proceeds to current refund Liberty's series 2003 leasehold revenue bonds for interest cost savings and to purchase police vehicles, in-car video systems, a utility dump truck, and a public safety radio system. We understand series 2013 GO bond proceeds will be used to fund two road projects.

The GO rating reflects our assessment of the following factors for the city:

- Adequate economy, which benefits from participation in the broad and diverse Kansas City Metropolitan Statistical Area (MSA);
- Very strong budgetary flexibility, with 2012 available reserves at 27% of general fund expenditures;
- Strong budgetary performance, with near break-even operations in both the general and total governmental funds;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Strong management with good financial policies and practices; and
- Adequate debt and contingent liabilities position, bolstered by its rapid amortization.

Adequate economy

We consider Liberty's economy adequate with access to the broad and diverse Kansas City MSA. Liberty serves as the seat of Clay County and is about 15 miles north of downtown Kansas City. Unemployment in Clay County averaged 6.4% in 2012, below the metropolitan area (6.6%), state (6.9%), and national (8.1%) averages. The city has projected per-capita effective buying income of 106% of the U.S. level. Per-capita market value for the city is $67,102. Assessed value (AV) decreased by an average rate of 2% annually for three years in a row, briefly stabilized in 2012, and dropped again in 2013 due to revaluation. AV currently measures $457 million, and management expects a modest increase in 2014.

Very strong budgetary flexibility

In our opinion, the city's budgetary flexibility is very strong, with available reserves in the general, capital sales tax, and utility funds above 15% of expenditures for the past several years and no plans to significantly spend them down. For audited fiscal 2012, available reserves were $4.2 million, or 27% of expenditures. Reserves are expected to be 24% of expenditures in fiscal 2013 and 23% in 2014. Liberty carries high reserves given its heavy reliance on sales tax revenues, although they have been stable in recent years. The general fund budget is supported by a diverse revenue stream, including property taxes, franchise fees, and sales taxes.

Strong budgetary performance

The city's budgetary performance has been strong overall, in our view, with a surplus of 0.3% in the general fund in fiscal 2012 but a slight deficit of 0.9% in the total governmental funds. Liberty is also projecting near break-even results in both fiscal years 2013 and 2014 in its general and total governmental funds, so we do not anticipate a change in our view of the budgetary performance. We also understand the city does not have any upcoming deferred payments on a cash basis.

Very strong liquidity

Supporting Liberty's finances is liquidity we consider very strong, with total government available cash at 48% of total governmental fund expenditures and over 4x debt service. We believe the city has exceptional access to external liquidity. It has issued bonds frequently during the past 15 years, including GO, special obligation, special assessment, leasehold revenue, and tax-increment financing bonds; capital leases; and Missouri Department of Natural Resources loans.

Strong management conditions

We view Liberty's management conditions as strong, with good financial practices and policies. Management reviews revenues and expenditures monthly and provides the city council with a monthly budget report. The city maintains a five-year capital improvement plan, which identifies funding sources for each project, and updates it multiple times each year. Long-term financial planning is also employed and reviewed with city council multiple times per year. The city makes investments according to its own investment policy, and management provides the council with monthly investment reports. While Liberty does not have a formal debt management policy, it recently adopted a formal fund balance policy. The policy establishes minimum fund balances in its general fund, parks fund, and capital improvement funds of 18% of operating revenues, 10% of operating revenues, and $1 million, respectively, all of which it was meeting at fiscal year-end 2012.

Adequate debt and contingent liability profile

In our opinion, Liberty's debt and contingent liability profile is adequate, with total governmental fund debt service at 11% of total governmental fund expenditures and with net direct debt at 136% of total governmental fund revenue. The city does not have any debt plans for the next two years beyond a potential $95 million sewer revenue bond, which we typically consider fully self-supporting, so we do not expect these figures to rise. Liberty has fully self-supporting enterprise debt outstanding and has used bonds to upgrade and modernize its infrastructure before.

Liberty participates in the Missouri Local Government Employees' Retirement System, a defined-benefit pension plan. The city's $901,000 contribution to the plan over the 12 months ended Dec. 31, 2012 was equal to state requirements, but given the state's limitations on annual pension cost increases, the actuarial required contribution was only 91% funded. The plan had an 83% funded ratio as of its last valuation date (Feb. 29, 2012). Liberty does not pay for any portion of retiree health care premiums. but allows employees to stay in its health insurance plan on retirement and continue to pay active premium rates. As such, a portion of the city's contributions to the health care plan for active employees constitutes an implicit subsidy contribution on behalf of its retirees. In 2012, this other postemployment benefit (OPEB) implicit subsidy contribution totaled $9,000. The combined annual required pension and OPEB pay-as you-go costs for fiscal 2012 were less than 10% of expenditures, and the city does not anticipate these costs will increase substantially in the near term.

Adequate institutional framework

We consider the institutional framework score adequate for Missouri municipalities. (See the Institutional Framework score for Missouri.)

Outlook

The stable outlook reflects our view of Liberty's very strong budgetary flexibility and liquidity, which is supported by strong management. We do not expect to revise the rating in the next two years because we believe the city will maintain at least adequate budgetary performance and continue to participate in the broad and diverse Kansas City MSA. Rating stability also reflects Liberty's strong underlying tax base, which supports a steady and diverse array of property taxes, franchise fees, and sales taxes.

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: 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

Ratings Detail (As Of November 27, 2013)		
Liberty spl oblig		
Long Term Rating	AA-/Stable	Upgraded
Liberty GO		
Long Term Rating	AA/Stable	Upgraded
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		

Ratings Detail (As Of November 27, 2013) (cont.)		
04/01/2004-2013 2018		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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