



## CREDIT OPINION

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# Kearney (City of) MO

## Update to credit analysis

### Summary

The credit profile of the [City of Kearney, MO](#) (Aa3) benefits from stable financial operations with healthy reserves, a growing tax base favorably located near [Kansas City](#) (Aa2 stable), above average resident income indices, and a low pension burden. These attributes are weighed against the city's exposure to economically sensitive sales tax revenue and an elevated debt burden with sizable enterprise support.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks given the city's healthy operating reserves. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the district changes, we will update our opinion at that time.

### Credit strengths

- » Stable financial operations with healthy reserves
- » Growing tax base favorably located near Kansas City
- » Above average resident income indices
- » Low pension burden

### Credit challenges

- » Exposure to economically sensitive sales tax revenue
- » Elevated debt burden with sizable enterprise support

### Rating outlook

Moody's does not typically assign outlooks to local government credits with this amount of debt outstanding.

### Factors that could lead to an upgrade

- » Significant tax base expansion (GOULT)
- » Mitigation of the debt burden (GOULT)
- » Upgrade of the city's GOULT rating (lease appropriation)

## Factors that could lead to a downgrade

- » Erosion of reserves or liquidity (GOULT)
- » Trend of tax base contraction (GOULT)
- » Further material leveraging of the tax base absent corresponding taxable value or revenue growth (GOULT)
- » Downgrade of the city's GOULT rating (lease appropriation)

## Key indicators

Exhibit 1

Kearney (City of) MO	2015	2016	2017	2018	2019
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$627,935	\$673,521	\$682,158	\$739,906	\$762,088
Population	9,039	9,259	9,469	9,778	9,778
Full Value Per Capita	\$69,469	\$72,742	\$72,041	\$75,670	\$77,939
Median Family Income (% of US Median)	119.7%	117.4%	115.4%	115.2%	115.2%
<b>Finances</b>					
Operating Revenue (\$000)	\$9,950	\$6,165	\$6,533	\$7,856	\$7,933
Fund Balance (\$000)	\$2,894	\$2,908	\$2,940	\$3,203	\$3,796
Cash Balance (\$000)	\$3,172	\$3,751	\$4,061	\$4,292	\$5,048
Fund Balance as a % of Revenues	29.1%	47.2%	45.0%	40.8%	47.9%
Cash Balance as a % of Revenues	31.9%	60.8%	62.2%	54.6%	63.6%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$10,374	\$9,779	\$9,610	\$9,299	\$12,438
3-Year Average of Moody's ANPL (\$000)	\$1,901	\$1,705	\$2,210	\$2,704	\$3,223
Net Direct Debt / Full Value (%)	1.7%	1.5%	1.4%	1.3%	1.6%
Net Direct Debt / Operating Revenues (x)	1.0x	1.6x	1.5x	1.2x	1.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.3%	0.3%	0.3%	0.4%	0.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.2x	0.3x	0.3x	0.3x	0.4x

Source: Kearney's audited financial statements fiscal years 2015-19; US Census Bureau

## Profile

The City of Kearney is located 30 miles northeast of downtown Kansas City. The thirteen square mile city is home to approximately 10,800 residents.

## Detailed credit considerations

### Economy and tax base: growing tax base favorably located near Kansas City

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, healthcare, retail, and oil and gas could suffer particularly severe impacts. The effect on local governments will vary based on the extent and duration of local disruption and could be more or less severe than the nation overall. The evolution of the crisis remains highly uncertain and the full extent of the economic costs will be unclear for some time.

Kearney's tax base is expected to remain stable given ongoing commercial and modest residential development and the city's favorable location just north of Kansas City; officials estimate approximately 80% of the city's population commutes throughout the metro area for employment. [Ford](#) (Ba2 negative) and [General Motors](#) (Baa3 negative) assembly plants, the [Kearney School District](#) (Aa3) as well as numerous federal regional offices, the Kansas City airport, and numerous other businesses have continued to operate throughout the pandemic.

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Over the past five years, the city's tax base expanded 6.5% on average, including a 13.2% increase in fiscal 2020 to \$863 million, primarily due to property appreciation and modest residential construction. Resident income levels are above-average with a median family income at 115.2% of the US. Similar to the rest of the nation, the city's unemployment rate skyrocketed in April in response to the coronavirus pandemic and resulting economic shutdown. The April 2020 unemployment rate of 12.5% in [Clay County](#) (Aa1) exceeds the state (9.8%) but compared favorably to the nation (14.4%) for the same period.

#### **Financial operations and reserves: stable financial operations with healthy reserves and liquidity**

The city's financial position is expected to remain healthy over the near term given ongoing development, conservative budgeting practices, and a recently approved sales tax increase. The city posted a \$237,000 general fund surplus in fiscal 2019, primarily due to increased property and sales tax revenue. The surplus pushed general fund reserves to \$2.8 million, representing a healthy 42% of revenues. On an operating basis, inclusive of debt service and special revenue funds, the city posted a \$673,000 surplus in fiscal 2019 and increased available fund balance to \$3.8 million, or 48% of operating revenues. The city remains exposed to economically sensitive sales tax revenues which accounted for 63% of the city's general revenue in fiscal 2019. Management report 2.7% year over year sales tax revenue growth for fiscal 2020 (March 31 year end), partially attributable to the new 1% sales tax approved by voters in 2018. To date, fiscal 2021 sales taxes are 3.5% lower than the prior year.

Management reports a fiscal 2020 unaudited general fund deficit of approximately \$186,000; the fiscal 2020 budget included a \$507,000 drawdown for various pay-go capital projects, some of which were delayed to fiscal 2021. Additionally, management anticipates a modest general fund drawdown in fiscal 2021 to complete the delayed pay-go capital projects.

#### **LIQUIDITY**

The city closed fiscal 2019 with \$5 million in operating liquidity (general, debt service, and special revenue funds), representing 63.6% of operating revenues.

#### **Debt and pensions: elevated debt burden with material enterprise support**

The city's debt burden will remain elevated, but manageable, given near term issuance plans, average principal amortization, and material enterprise support. The city's direct debt burden of 2.5% is elevated, but falls to 1.3% when considering ongoing enterprise support. The city intends to satisfy the majority of debt service on the current issuance with utility revenues as the bulk of the projects were related to improvements of the city's water and wastewater systems. The utility generated net revenues of approximately \$1.4 million in fiscal 2019 and provided 1.4 times debt service paid from the utility. The city increased rates 5% for water and wastewater services in May 2019 and the fiscal 2021 budget included a 5% water increase, though the rate has not yet been enacted in response to the coronavirus pandemic.

The city expects to issue approximately \$21 million in the fall of 2020 to complete the second I-35 interchange. The bonds will be GO but will be supported by the newly approved 1 cent sales tax. The issuance is anticipated to increase the city's debt burden to an elevated 3.7% of fiscal 2020 values, exclusive of debt supported by the city's utility enterprise. Additional leveraging of the tax base is negative for the city's credit profile.

#### **DEBT STRUCTURE**

All of the city's debt is fixed rate and matures over the long-term (final maturity in fiscal 2038). Principal amortization of GO debt is average with 82.6% of principal repaid within ten years.

#### **DEBT-RELATED DERIVATIVES**

The city is not party to any interest rate swaps or other derivative agreements.

#### **PENSIONS AND OPEB**

The city participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer statewide defined benefit pension plan. In fiscal 2019, the city contributed \$174,000 towards the plan, its actuarially determined contribution as established by LAGERS.

Moody's has allocated liabilities of the state cost-sharing plan in proportion to the city's contributions to the plan for analytic purposes. Moody's three-year average adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, equaled \$3.2 million in fiscal 2019 or a minimal 0.4 times operating revenues and 0.4% of the city's full valuation. Moody's ANPL

reflects certain adjustments we make to improve the comparability of reported pension liabilities and are not intended to replace the city's reported liability information.

Positively, the city's contributions have exceeded "treadwater" in three of the past four years. In fiscal 2019, the contribution exceeded "treadwater" by roughly 20% which represents less than 1% of operating revenues. The "tread water" indicator measures the annual government contribution required to prevent the reported net pension liability from growing, under reported assumptions including the above average 7.25% discount rate. Contributions above the tread water level cover all net pension liability interest plus pay down some principal, making them stronger from a credit perspective than contributions below this level.

Fixed costs were approximately \$1 million in fiscal 2019, comprised of debt service and "tread water" pension contributions, representing a manageable 13% of operating revenues. The city does not offer other post employment benefits (OPEB).

## ESG considerations

### ENVIRONMENTAL

Environmental considerations do not present material risks to the city's credit profile. The city is at medium risk for heat and extreme rainfall. Extreme weather events are typically accompanied by state and federal assistance, which further mitigates environmental risk.

### SOCIAL

Social considerations including demographic and economic trends along with the recent coronavirus pandemic and its resulting effect are discussed above in the summary and economy and tax base sections.

### GOVERNANCE

Kearney is governed by a Mayor and a four-member Board of Alderman. The Mayor is elected every two years to a four year term and two Alderman are elected annually to two year staggered terms. The City Administrator is appointed by the Mayor with the approval of a majority of the Board and is responsible for the day to day operations of the city. The city's conservative budgeting practices have resulted in a nearly 53% increase of general fund reserves since 2014.

Missouri Cities have an Institutional Framework score of A, which is moderate. The sector's major revenue sources are subject to a cap via the Hancock Amendment which can be overridden with voter approval only. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, Missouri has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

## Rating methodology and scorecard factors

The [US Local Government General Obligation Debt](#) methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

### Kearney (City of), MO

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) <sup>[1]</sup>		
Tax Base Size: Full Value (in 000s)	\$863,044	A
Full Value Per Capita	\$88,264	Aa
Median Family Income (% of US Median)	115.2%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	47.9%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	18.0%	Aa
Cash Balance as a % of Revenues	63.6%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	31.2%	Aaa
Notching Factors: <sup>[2]</sup>		
Other Analyst Adjustment to Finances Factor: Primary revenue source is economically sensitive sales tax		Down
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.1x	Aaa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.3%	Aa
Net Direct Debt / Operating Revenues (x)	1.4x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.4%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.4x	Aa
Notching Factors: <sup>[2]</sup>		
Other Analyst Adjustment to Debt and Pensions Factor (specify): Material near term issuance plans		Down
	Scorecard-Indicated Outcome	Aa3
	Assigned Rating	Aa3

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: Kearney's audited financial statements fiscal years 2015-19; US Census Bureau

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