S&P Global Ratings

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Summary:

Clayton, Missouri; Appropriations; General Obligation

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Credit Profile		
US$12.67 mil spl oblig rfdg and imp bnds ser 2019 due 12/01/2029		
Long Term Rating	AA+/Stable	New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Clayton, Mo.'s series 2019 special obligation refunding and improvement bonds. At the same time, we affirmed our 'AAA' long-term rating on the city's general obligation debt (GO) and 'AA+' long-term rating on the city's outstanding appropriation debt. The outlook is stable.

Securing the series 2019 special obligation bonds are payments made by the city pursuant to an ordinance, subject to annual appropriation. Proceeds will be used to refund the city's series 2009B special obligation bonds and renovate the Center of Clayton Community Recreation Center.

We rate the city's appropriation-backed debt one notch lower than the GO rating to capture the risk associated with annual appropriations. We have not notched the ratings any further, as we see no unusual risks in the city's willingness to support the obligations, political or administrative risks regarding the corresponding projects, the obligor's involvement with the associated projects, or unusual terms that would disrupt timely payment.

The city's GO bonds are secured by revenue from ad valorem taxes, levied without limitation.

The city's GO bonds are eligible to be rated above the sovereign because we believe the city could maintain stronger credit characteristics than the U.S. in a stress scenario. Per our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Feb. 13, 2019 on RatingsDirect, the city's revenue is predominantly locally derived, with independent taxing authority and independent treasury management from the federal government.

With access to the broad and diverse St. Louis metropolitan statistical area (MSA), the city has benefited from strong economic growth, which, in conjunction with its strong financial management policies and practices, has supported stable operations and the maintenance of very strong reserves and liquidity.

The rating reflects our view of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area MSA;
- Very strong management, with strong financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level

in fiscal 2018;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 55% of operating expenditures;
- Very strong liquidity, with total government available cash at 37.1% of total governmental fund expenditures and 2.9x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 12.8% of expenditures and net direct debt that is 92.2% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 72.0% of debt scheduled to be retired in 10 years; and
- Adequate institutional framework score.

Very strong economy

We consider Clayton's economy very strong. The city, with an estimated population of 16,034, is located in St. Louis County in the St. Louis MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 181% of the national level and per capita market value of $321,122. Overall, the city's market value grew by 19.5% over the past year to $5.1 billion in 2020. The county unemployment rate was 3% in 2018.

Clayton serves an affluent community and is the seat of St. Louis County, eight miles west of the City of St. Louis. The city is home to a sizable corporate, financial, and legal district with an estimated 7 million square feet in office space and a daytime population of commuters nearly 3x the size of its habitual population.

Officials report that the city continues to see strong development with Centene Corp. (one of the area's largest employers) opening an office building and adding nearly 1,000 jobs, the planned opening of a hotel and senior living center, and construction of additional commercial and residential spaces. Although the city may see modest declines in AV after reassessment years as a result of property tax protests, we anticipate that the overall trend will remain largely positive given the area's continued development.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our financial management assessment methodology, indicating our view that financial practices are strong, well embedded, and likely sustainable.

Highlights of the city's financial management policies and practices include the use of both historical data as well as consultations with a number of outside sources to develop financial forecasts, quarterly reporting to the board on both budget-to-actual performance and investment holdings, maintenance of formal investment and debt management policies, maintenance of detailed long-term financial and capital improvement plans, and adherence to a formal reserve policy to maintain at least 25% of expenditures on hand. The city's reserve policy was designed to provide the city sufficient time to adjust operations to deal with unforeseen adversities and opportunities and to meet the city's cash flow needs. We believe the city's policy to maintain very strong reserves would provide the city with important liquidity in the event it ever suffered a natural disaster or emergency expense.

Strong budgetary performance

Clayton's budgetary performance is strong, in our opinion. The city had operating surpluses of 1.7% of expenditures in the general fund and of 1.6% across all governmental funds in fiscal 2018. General fund operating results of the city have been stable over the past three years, with a result of 0.2% in 2017 and a result of 2.3% in 2016.

We note that we have made a number of adjustments to the city's financial data to better analyze its typical operations and facilitate comparisons with its peers. For instance, we have treated recurring transfers into and out of the general fund as revenue and expenditures, respectively, and we have adjusted for one-time capital expenditures funded by land sale proceeds and charitable donations. Consequently, we note that that the city has maintained surplus operations in its general fund and mixed but structurally sound operations across its total governmental funds in each of the past three audited years.

Officials estimate that the city will finish fiscal 2019 with a roughly $16,000 operating surplus in the general fund. The 2020 budget features a modest general fund drawdown of $293,000. Given officials' projections as well as strong financial management practices, we anticipate that the city will maintain strong operations in most years. Lending stability to the city's operations is the diversity of its revenue streams with the three largest being property taxes (28% of total governmental fund revenue), sales taxes (22%), and public utility licensees (16%).

Very strong budgetary flexibility

We note that the city's available reserves decreased modestly in fiscal 2018 given the reclassification of nearly $1.5 million in unassigned reserves to nonspendable reserves. Despite the reclassification, Clayton's budgetary flexibility remains very strong, in our view, with an available fund balance in fiscal 2018 of 55% of operating expenditures, or $15.9 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.

Given the strength of the city's reserves, as well as management's projections, we anticipate that the city will maintain very strong budgetary flexibility for the foreseeable future.

Very strong liquidity

In our opinion, Clayton's liquidity is very strong, with total government available cash at 37.1% of total governmental fund expenditures and 2.9x governmental debt service in 2018.

Our assessment of the city's liquidity accounts for investments with maturities of one year or less, but excludes unspent bond proceeds. In our view, the city has strong access to external liquidity if necessary, as demonstrated by a number of debt and lease issuances over the past 15 years. We do not believe that the city is party to any privately placed or direct purchase agreements that would pose a risk to its liquidity or finances. We anticipate that the city's liquidity position will remain very strong for the foreseeable future.

Strong debt and contingent liability profile

In our view, Clayton's debt and contingent liability profile is strong. Total governmental fund debt service is 12.8% of total governmental fund expenditures, and net direct debt is 92.2% of total governmental fund revenue. After this issuance and the refunding of the city's series 2009B bonds, the city will have roughly $33.5 million in outstanding debt. Overall net debt is low at 1.9% of market value, and approximately 72.0% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

The city plans to issue approximately $10.2 million in additional debt in 2020, but we do not anticipate that this issuance will materially increase the city's debt burden.

Clayton's pension contributions totaled 4.5% of total governmental fund expenditures in 2018. The city made 104% of its annual required pension contribution.

The city maintains two single-employer, defined benefit pension plans. The City of Clayton Non-Uniformed Employees' Retirement Fund is 95.7% funded with an estimated liability of $870,653, while the City of Clayton Uniformed Employees' Pension Fund is 94.7% funded with an estimated liability of $2.5 million. Given that the plans are well funded and that contributions make up a comparatively small portion of the city's budget, we do not anticipate that pension obligations will pressure the city's finances within the next several years.

The city also provides other postemployment benefits in the form of medical and prescription drug coverage for eligible retirees, which it funds on a pay-as-you-go basis. The estimated liability totaled less than $1.3 million under the plan, and contributions remain a very small portion of the city's budget.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Outlook

The stable outlook reflects our expectation that management will effectively manage the city's finances and maintain stable operations with very strong reserves and liquidity for the foreseeable future. Further stability is provided by the city's access to the broad and diverse St. Louis MSA. Consequently, we do not anticipate changing the rating within the next two years. If, however, the city's budgetary performance were to materially deteriorate and thereby weaken the city's budgetary flexibility or liquidity, we could consider lowering the rating.

Related Research

2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of August 23, 2019)		
Clayton spl oblig bnds		
Long Term Rating	AA+/Stable	Affirmed
Clayton spl oblig bnds		
Long Term Rating	AA+/Stable	Affirmed
Clayton ICR		
Long Term Rating	AAA/Stable	Affirmed
Clayton GO		
Long Term Rating	AAA/Stable	Affirmed