S&P Global Ratings

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Summary:

Burlington, Iowa; General Obligation

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Credit Profile		
US$4.8 mil GO corporate purp bnds ser 2019A due 05/01/2019		
Long Term Rating	A+/Stable	New
Burlington GO		
Long Term Rating	A+/Stable	Affirmed
Burlington GO		
Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Burlington, Iowa's series 2019A general obligation (GO) corporate purpose bonds. At the same time, we affirmed our 'A+' long-term rating on the city's existing GO debt. The outlook on all ratings is stable.

The city's unlimited ad valorem tax GO pledge secures the bonds. Proceeds of the series 2019A bonds will be used to finance street improvements, acquisition of a fire truck, demolition of the former police department building, and other various capital projects.

The 'A+' rating reflects our view of the city's:

- Very weak economy, with market value per capita of $54,117 and projected per capita effective buying income (EBI) at 78.1% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2018;
- Strong budgetary flexibility, with an available fund balance in fiscal 2018 of 14.5% of operating expenditures;
- Very strong liquidity, with total government available cash at 67.0% of total governmental fund expenditures and 4.2x governmental debt service, and access to external liquidity that we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 16.1% of expenditures and net direct debt that is 132.3% of total governmental fund revenue, but rapid amortization, with 66.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very weak economy

We consider Burlington's economy very weak. The city, with an estimated population of 25,022, is in Des Moines

County. The city has a projected per capita EBI of 78.1% of the national level and per capita market value of $54,117. Overall, market value grew by 4.8% over the past year to $1.4 billion in 2020. The county unemployment rate was 4.3% in 2017.

Burlington is a significant manufacturing hub in southeast Iowa. Major employers in the city include Great River Medical Center (over 1,000 employees), the agriculture and construction equipment manufacturer Case New Holland (500-1,000), Shearer's Food (500-1,000), and explosives manufacturer American Ordnance (500-1,000).

Burlington had seen a temporary uptick in retail activity during the construction of a substantial fertilizer plant approximately 10 miles to the south. During its peak, the plant had approximately 3,500 construction workers. Management estimates there are roughly 300 full-time permanent employees now that the plant is complete.

Residential growth has been modest as the city's population been slowly declining for several decades. The city is seeing some new development related to rental apartments downtown. Its actual and taxable valuations have continued to grow modestly despite the population declines. Given current developments, we expect there to be continued slow growth.

Strong management

We view the city's management as strong, with good financial policies and practices under our 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.

In developing its annual budget, the city uses three-to-four years of historical data as well as its long-term financial plan to assist with revenue and expenditure estimates. Burlington also provides budget-to-actual performance monthly to the city council. The city maintains a long-term capital planning document that is updated annually, with funding sources identified. It has its own investment policy that follows state guidelines, and currently only invests in CDs. The city has a debt management policy that follows state limitations, and provides additional guidance regarding length of maturities, savings required for refundings, and a 30% margin below the state limitation for GO debt in case of emergencies. It implemented its fund balance policy in 2012 when reserves were considerably lower, with the goal of achieving the policy level in 10 years. The policy calls for 15% of expenditures in undesignated reserve. When accounting for transfers out, the city is not yet in compliance with the policy. We expect the city will be in compliance after fiscal 2019. If reserves improve so that the city is in compliance and it maintains its other policies and practices, the city's FMA score could improve to strong.

Strong budgetary performance

Burlington's budgetary performance is strong, in our opinion. The city had balanced operating results in the general fund of negative 0.1% of expenditures, and surplus results across all governmental funds of 4.8% in fiscal 2018.

We have adjusted general fund revenues and expenditures to account for annually recurring transfers in from its local option sales tax (LOST), employee benefits, and certain enterprise funds and budgeted transfers out to debt service, capital projects, and certain enterprise funds. Hotel/motel tax revenues are received in the general fund and transferred out for various purposes. We also adjusted total governmental fund revenues and expenditures to account for recurring transfers in and out of enterprise funds, one-time capital projects, and bond refundings.

The city has had strong general fund and total governmental fund performance over the last three fiscal years.

For fiscal 2019, Burlington estimates a $250,000 general fund surplus on a cash basis, some of which may be spent on one-time capital projects. Total governmental funds are expected to remain stable after adjustments. The city is in the process of developing its fiscal 2020 budget. Management expects that the final budget will call for at least break-even operations or a small surplus.

Should the state eliminate backfill payments, the city could lose up to $435,000 in state revenue.

Strong budgetary flexibility

Burlington's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2018 of 14.5% of operating expenditures, or $2.9 million.

The city has improved its budgetary flexibility in recent years, having increased its available fund balance from its low of 1.8% in 2012 to 14.5% in fiscal 2018. Based on current projections for fiscal 2019, we anticipate a strengthening of the city's budgetary flexibility to very strong from strong. The city has an additional $899,000 restricted in its LOST fund.

Very strong liquidity

In our opinion, Burlington's liquidity is very strong, with total government available cash at 67.0% of total governmental fund expenditures and 4.2x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

The city has roughly $22 million of cash and liquid investments available at fiscal year-end 2018. We consider its access to external liquidity strong based on its frequent issuance of GO debt over the last 20 years and expected market access. We do not view its investments as aggressive because the majority are in CDs. It has no variable-rate debt. The city's series 2012 GO bonds, of which $439,000 in principal is outstanding, were privately purchased by Two Rivers Bank & Trust of Burlington. We do not believe the private purchase poses a liquidity risk because the loan agreement does not include any acceleration provisions or other covenants that could impair the city's credit quality. We do not anticipate a weakening of the liquidity position in the next few years.

Weak debt and contingent liability profile

In our view, Burlington's debt and contingent liability profile is weak. Total governmental fund debt service is 16.1% of total governmental fund expenditures, and net direct debt is 132.3% of total governmental fund revenue. Approximately 66.1% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city has no formalized additional debt plans although the city is a regular issuer of debt.

Burlington's combined required pension and actual other postemployment benefit contributions totaled 6.3% of total governmental fund expenditures in 2018. The city made its full annual required pension contribution in 2018.

It participates in the Iowa Public Employee Retirement System (IPERS) and the Municipal Fire and Police Retirement System of Iowa (MFPRSI), statewide cost-sharing, multiple-employer defined-benefit pension plans. The city's annual required pension contribution to both IPERS and MFPRSI set by state statute and based on an actuarially determined normal contribution rate.

The plans' fiduciary net position as a percentage of the total pension liabilities were 83.6% using a 7.5% discount rate and 30 year closed amortization period for IPERS and 80.6% for MFPRSI in fiscal 2018.

Strong institutional framework

The institutional framework score for Iowa cities with a population greater than 2,000 is strong.

Outlook

The stable outlook reflects our view of the city's strong budgetary performance and very strong budgetary flexibility when accounting for fiscal 2019 projections. Given its stable finances, and projections of continued surpluses, we do not anticipate changing the rating within the two-year outlook horizon.

Upside scenario

We could raise the rating if the city's economic metrics were to improve significantly, and if its budgetary flexibility is sustained at very strong, in combination with strong management policies and practices.

Downside scenario

We could lower the rating if the city's budgetary performance were to deteriorate, causing a material decline in budgetary flexibility.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2018 Update Of Institutional Framework For U.S. Local Governments