

RatingsDirect®

Summary:

Johnston, Iowa; General Obligation

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US\$8.51 mil GO bnds ser 2016A due 06/01/2036

Long Term Rating AA+/Stable New

Johnston GO

Long Term Rating AA+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Johnston, Iowa's general obligation (GO) bonds, series 2016A. At the same time, we affirmed our 'AA+' long-term rating on the county's existing GO debt. The outlook is stable.

The bonds are secured by the city's unlimited ad valorem tax GO pledge. Proceeds will be used to pay for public improvements and related costs.

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

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating deficits in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 41% of operating expenditures, and the flexibility to raise additional revenue despite statewide tax caps;
- Very strong liquidity, with total government available cash at 115.5% of total governmental fund expenditures and 6.5x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 17.9% of expenditures and net direct debt that is 344.1% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider Johnston's economy very strong. The city, with an estimated population of 20,634, is located in Polk County in the Des Moines-West Des Moines MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 141% of the national level and per capita market value of \$107,687. Overall, the city's market value has grown by 8.3% over the past year to \$2.2 billion in 2017. The county unemployment rate was 3.6% in 2015.

Johnston is in Polk County in central Iowa, approximately four miles northwest of the state economic center and capital, Des Moines. The city's population has more than doubled since the 2000 U.S. census. Given Johnston's

location, residents have access to employment in the city and throughout the metropolitan area. Management expects the tax base will continue to grow.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights include the use of three years of historical information when constructing the budget, monthly budget-to-actual reports provided to the council, the maintenance of a five-year capital plan that is adopted by the council and updated annually, a formal investment policy whereby the council reviews holdings in its monthly treasury investment reports, and a formal fund balance policy of 25% that the city will continue to exceed despite its planned use of reserves. The city also has a formal debt management policy that states the city's GO debt should not exceed 75% of the statutory limit. The city lacks a formal long-term financial plan.

Adequate budgetary performance

Johnston's budgetary performance is adequate, in our opinion. After adjustment for one-time capital expenditures and recurring transfers, the city had slight surplus operating results in the general fund of 1.5% of expenditures but a deficit result across all governmental funds of 4.3% in fiscal 2015.

The city budgeted for a use of \$1.7 million of reserves in 2015 and ended with a deficit of \$626,000. The variance was due to some delays in conducting a census and renovating city hall and some turnover in public safety employees. The city planned to use reserves again in fiscal 2016 to move closer to its 25% reserve policy, and anticipates finishing with a use of roughly \$1.1 million. In fiscal 2017, the city budgeted to use \$510,000 of reserves to continue to move closer to its 25% reserve policy. The majority of the used reserves will be used for one-time capital and equipment expenditures.

Very strong budgetary flexibility

Johnston's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 47% of operating expenditures, or \$5.2 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. In addition, the city has the flexibility to raise additional revenue despite statewide tax caps, which we view as a positive credit factor.

The city anticipates ending fiscal 2016 with about \$4.1 million in the general fund, which is 32% of its general fund expenditures. The city budgeted to end fiscal 2017 with \$3.6 million, or 28% of general fund expenditures. Johnston, unlike most Iowa municipalities, is not levying at its maximum rates. In fiscal 2016, the city could generate an additional \$2.6 million, or 23% of fiscal 2015 general fund revenue, which we view as significant. The city has a formal fund policy to keep at least 25% of expenditures in reserve and is committed to staying at or above that level. Despite the scheduled drawdown on reserves, we expect budgetary flexibility to remain very strong.

Very strong liquidity

In our opinion, Johnston's liquidity is very strong, with total government available cash at 86.1% of total governmental fund expenditures and 3x governmental debt service in 2015.

We believe the city has strong access to external liquidity. It has issued GO and revenue bonds frequently over the past 15 years. The city's investments are primarily in certificates of deposit and cash, which we do not consider aggressive. We expect liquidity to remain very strong over the next two years.

Very weak debt and contingent liability profile

In our view, Johnston's debt and contingent liability profile is very weak. Total governmental fund debt service is 29.1% of total governmental fund expenditures, and net direct debt is 344.1% of total governmental fund revenue.

The city is considering a current refunding of its series 2007B in the spring of 2017. It is also planning to issue approximately \$15.42 million in August 2017 for annual capital improvement projects. In addition, the city plans to issue approximately \$5.4 million in August of 2018 for annual capital improvement plan projects. We expect the debt profile to remain very weak.

Johnston's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.7% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

Although pension and OPEB contributions remain a long-term credit consideration, we believe the liability is manageable. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the city's net pension liability as of 2015 was \$1.4 million. The largest plan maintained a funded level of 87.61% using the plan's fiduciary net position as a percentage of the total pension liability. The city operates a single-employer retiree benefit plan that provides medical benefits for retirees and finances this obligation on a pay-as-you-go basis. Retirees under the age of 65 pay 100% of the full active employee premium rates.

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 Johnston's very strong economy budgetary flexibility and liquidity, both of which are supported by strong management. We expect the city's credit characteristics to remain relatively unchanged during the two-year outlook period and thus do not expect to change the rating.

Upside scenario

We could raise the rating if the city's overall debt burden were to improve to levels we consider at least adequate and budgetary performance stabilized at levels we consider strong, all while the city stayed in compliance with its 25% reserve policy.

Downside scenario

We could lower the rating if the city's budgetary flexibility were to weaken to levels we no longer consider at least strong.

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: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2015 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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