

### Summary:

## Perryville, Missouri; Appropriations; General Obligation

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### Table Of Contents

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Rationale

Outlook

Related Criteria And Research

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Credit Profile		
US\$2.295 mil certs of part ser 2012A due 07/01/2020		
Long Term Rating	A-/Stable	New
ICR		
Long Term Rating	A/Stable	New

## Rationale

Standard & Poor's Ratings Services has assigned its 'A' issuer credit rating (ICR) to the city of Perryville, Mo. and its 'A-' long-term rating to the city's series 2012A certificates of participation (COPs). The outlook on the ratings is stable.

The 'A' ICR reflects our view of the city's:

- Role as the county seat and employment hub for Perry County;
- Strong wealth levels, measured by market value per capita; and
- Low-to-moderate overall debt levels.

The city's moderately concentrated tax base and nominally thin unreserved general fund balance partly offset these factors.

Securing the COPs are Perryville's rental payments made pursuant to a lease purchase agreement between the city and First Bank of Missouri as lessor. The rating on the COPs is set one notch below the ICR, reflecting annual appropriation risk.

We understand the city intends to use the series 2012A bond proceeds to construct a retention basin at its Southeast Wastewater Treatment Plant, acquire and construct a new water tower, construct and extend its main natural gas pipeline, and acquire the land necessary to do the foregoing. Perryville's appropriation pledge secures the bonds. We understand that the city will fund a debt service reserve with the bond proceeds and intends to fund base rentals of the property with surplus revenues from its combined waterworks and sewerage system and natural gas system.

Perryville, which is the seat for Perry County, is in southeast Missouri, approximately 70 miles south of St. Louis and 30 miles north of Cape Girardeau. The city's 2010 U.S. Census population of 8,225 was a 7.3% increase from 2000. Most residents work within the city, and the population grows dramatically during the day, as many nonresidents commute to Perryville for work. Leading city employers include Gilster-Mary Lee Corp. (1,606 employees), TG Missouri Corp. (1,200), and Sabreliner Corp. (425). We understand that TG Missouri Corp. is expanding and intends to add 200 jobs by the end of calendar year 2012. In 2010, the city's average unemployment rate was 8.3%, which was below the state average of 9.4% and the national average of 9.6%. From January through November 2011, Perryville's average unemployment was 6.3%.

Income levels within the city are adequate, with median household effective buying income at 87% of the national level and per capita effective buying income at 81% of the national level. The tax base is moderately concentrated, in our opinion, with the 10 leading taxpayers making up 25.7% of the city's 2011 assessed value. TG Missouri Corporation is the leading taxpayer at 11.89%, followed by Toyota-Motor Manufacturing at 5.91%. The city's assessed value increased 1.4% to an approximate \$130 million from 2010 to 2011. Wealth levels, measured by market value per capita, are strong at \$63,320, with the city's estimated actual value (more representative of sales prices) at \$521 million.

The city's financial operations have been relatively stable in recent years, with roughly break-even operations after interfund transfers in fiscals 2010 and 2011. On an unaudited basis, the city expects to report a surplus of about \$353,000 in the general fund as of fiscal year-end 2012 (March 31) and has budgeted a surplus of about \$65,000 for fiscal 2013. The expected surplus in fiscal 2012 should result in an unreserved general fund balance of approximately \$477,000, or 9% of general fund expenditures. The city's fiscal year-end 2011 unreserved general fund balance of \$138,000 amounted to 3.1% of expenditures and was adequate, in our opinion. The city has additional liquidity in its gas operation fund, which had approximately \$6 million in reserves as of fiscal year-end 2012. Transfers from the gas operation fund can be used for general operations, and the city already uses transfers from the fund for capital outlay and to support annual operations. Transfers from the gas operation fund to the general fund are larger in fiscal 2013 than usual because the city has two large street projects and two industrial growth projects planned during the fiscal year.

Standard & Poor's considers Perryville's financial management "good" under its Financial Management Assessment (FMA). An FMA of good indicates that the finance department maintains practices in most areas, although not all may be formalized or regularly monitored by governance officials. Management typically looks at five years of historical data in formulating its revenue and expenditure assumptions. Management updates the city council on budget-to-actual performance monthly. Budget amendments are typically done at year-end but are allowed at any of the city council's biweekly meetings. The city's investment policy follows the state guidelines, with monthly reporting to city council on holdings. The city does not maintain any long-term financial projections, but does have a six-year capital improvement plan that it updates annually. The city's informal fund balance reserve target is 25%-50% of general fund expenditures in the unreserved general fund balances.

Perryville's overall net debt burden is low, in our opinion, at \$1,318 per capita and 2.1% of market value. In fiscal 2011, the city's carrying charge was moderate at 10.8% of total governmental funds expenditures less capital outlay. The city has very rapid debt amortization, with 95% of direct debt paid from governmental activities retired within 10 years, and currently does not have any additional debt plans.

Perryville's employees participate in the Missouri Local Government Employees Retirement System (LAGERS). In 2010, Perryville's contribution to LAGERS was \$353,861, which equaled 92.2% of its annual required contribution set by state statutes. The city does not contribute toward retiree health care premiums.

## Outlook

The stable outlook reflects Standard & Poor's expectation that the ICR will not change during the two-year horizon of the outlook given our expectation that the city will take the steps necessary to produce at least balanced operations with interfund transfers from its gas utility. However, if gas operation fund transfers do not prove sufficient to result in balanced general fund operations, the rating could be pressured downward.

## **Related Criteria And Research**

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

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