STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Perryville, Missouri; Appropriations; General Obligation

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Long Term Rating	A+/Stable	Upgraded
Perryville ICR		
Long Term Rating	AA-/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its issuer credit rating (ICR) to 'AA-' from 'A' on Perryville, Mo., based on the application of our local general obligation (GO) criteria released Sept. 12, 2013. We also raised our long-term rating to 'A+' from 'A-' on the city's series 2012 certificates of participation (COPs). The rating on the COPs is set one notch below the ICR, reflecting annual appropriation risk. The outlook is stable.

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 'AA-' ICR reflects our assessment of the following factors for the city:

- We consider Perryville's budgetary performance very strong overall. The city ended fiscal 2013 (March 31) with a $761,000 general fund surplus (20.7% of expenditures), which management attributes to conservative budgeting and higher-than-anticipated sales tax revenue. After adjusting for one-time capital expenditures and annual transfers in from the city's enterprise funds, the city posted an estimated 22.6% surplus for total governmental funds. For fiscal 2014, the city budgeted for a $12,000 general fund deficit, but management reports that it ended the year with an estimated $673,000 surplus, again accredited to conservative budgeting. We anticipate at least balanced operations across all governmental funds in 2015 as well. Sales taxes accounted for 48% of general fund revenue in 2013, followed by utility taxes (35%) and property taxes (16%). Sales tax revenue has been stable during the past several years.
- We view Perryville's budgetary flexibility as very strong, with available reserves at 144.6% of adjusted operating expenditures in fiscal 2013 (ended March 31). In addition to $1.1 million available reserves in its general fund, the city has $5.3 million in unrestricted net assets in its gas utility fund. Management reports that it can use this for general fund operations without a legal requirement to pay back. On an unaudited basis, the city added about $673,000 to its general fund and $950,000 to its gas utility fund in fiscal 2014. The city plans to use reserves for infrastructure improvements during the next several years, but will target maintaining a balance of 25% of operating expenditures in both the general and gas utility funds. We believe that the total available fund balance will remain greater than 75% during the next two years, which is a credit strength.
- In our opinion, very strong liquidity supports Perryville's finances, with total government available cash to adjusted governmental funds expenditures at 199% and cash to debt service at more than 18.2x. Based on past issuance of debt, we believe that the city has strong access to capital markets to provide for liquidity needs if necessary.

- Perryville's management conditions are strong, in our opinion, with "standard" financial practices under our financial management assessment (FMA) methodology, indicating our view that the government maintains adequate policies in some but not all key areas. We revised our assessment to "standard" from "good" based on the understanding that the city no longer updates its long-term comprehensive capital plan on an annual basis.Strengths of the assessment, in our opinion, include strong revenue and expenditure assumptions in the budgeting process, strong oversight in terms of monitoring progress against the budget during the year, and an informal policy to maintain at least 25% of expenditures in every operating fund. The city plans to formalize this policy in fiscal 2015. Despite the absence of some formal policies, we believe management has maintained balanced operations, which is a credit strength. The city has posted four consecutive general fund surpluses, and we anticipate that management will maintain balanced operations for all governmental funds in 2015 and 2016.
- Perryville's debt and contingent liability profile is, in our opinion, very strong. Net direct debt is 44.9% of adjusted total governmental funds revenue, and total governmental funds debt service is 10.9% of adjusted total governmental funds expenditures. Approximately 94.4% of the debt will be repaid over 10 years. In addition, overall net debt is a low 1.2% of market value. Both of these are credit strengths. Perryville's employees participate in the Missouri Local Government Employees Retirement System (LAGERS). In 2013, Perryville's contribution to LAGERS was $539,000, which equaled 82% of its annual required contribution set by state statutes and 7.2% of total governmental funds expenditures. The city does not subsidize retiree health care for its employees.
- In our view, Perryville's local economy is very weak, with projected per capita effective buying income at 91.4% of the national average and per capita market value at roughly $64,200. 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 is not within a metropolitan statistical area. The city's estimated population is 8,410. Most residents work within the city, and the population grows significantly during the day, as many nonresidents commute to Perryville for work. In our opinion, the county's employment base is concentrated, with manufacturing accounting for 35% of total employment. This is a credit weakness. Leading city employers include Gilster-Mary Lee Corp. (1,606 employees), TG Missouri Corp. (1,200), and Sabreliner Corp. (425). The city's top 10 taxpayers account for 29.8% of total assessed valuation (AV). Total AV grew 4.6% in 2013 to $136.1 million. In 2013, the county's 4.6% unemployment rate was lower than the state (6.5%) and national (7.4%) rates.
- We consider the Institutional Framework score for Missouri municipalities adequate.

Outlook

The stable outlook reflects our belief that the city will maintain very strong budgetary flexibility and liquidity in the two-year outlook horizon. We do not anticipate changing the rating in the two-year outlook horizon because we believe that management will make the budgetary adjustments it deems necessary to maintain balanced operations. If budgetary performance does worsen, leading to significant deterioration in budgetary flexibility, we could lower the rating. In our opinion, the city's very weak economy, which is concentrated in the manufacturing sector, limits upward rating potential.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Related Research

- U.S. Not-For-Profit Health Care Providers Hone Their Strategies To Manage Transition Risk, May 16, 2012
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Missouri Local Governments

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