

RatingsDirect®

Summary:

Spring Hill, Kansas; General Obligation; Note

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Credit Profile

US\$6.65 mil Taxable GO rfdg bnds ser 2020B dtd 11/04/2020 due 09/01/2036

Long Term Rating AA-/Stable New

US\$3.125 mil GO temp nts ser 2020A dtd 11/04/2020 due 09/01/2021

Short Term Rating SP-1+ New

Rating Action

S&P Global Rating assigned its 'AA-' long-term rating to Spring Hill, Kan.'s \$6.7 million series 2020B general obligation (GO) refunding bonds, and its 'SP-1+' short-term rating to the city's \$3.1 million series 2020A GO temporary notes. At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating and 'SP-1+' short term rating on the city's GO debt and temporary notes outstanding. The short-term rating reflects our rating on the city's GO debt and the city's low market-risk profile, including the authority to issue takeout debt and the availability of pertinent disclosure information.

The series 2020A GO temporary notes, series 2020B GO refunding bonds, and parity debt outstanding are secured by the city's full faith and credit, including its ability to levy ad valorem property taxes without limitation as to rate or amount. A special assessment levied upon property benefiting from the projects funded with the bond proceeds further secures the issuance. We lack sufficient information to assess the special assessment pledge, and our rating is therefore based on the city's unlimited ad valorem pledge.

Inclusive of the series 2020A and 2020B issuance, we anticipate the city will have approximately \$24.1 million of net direct outstanding. We understand proceeds from the 2020A notes will fund road expansion projects, and the 2020B bonds will refund a portion of outstanding debt for interest savings.

Credit overview

Spring Hill benefits from its location near the broad and diverse Kansas City MSA. Combined with a reputable school district, the city has experienced substantial growth over the last five years. The city's debt burden is high, as multiple projects have been taken on to support the growth and population increases. Although the debt is high, we view it as manageable, and payments have not pressured the city's budgets. Three consecutive surpluses from 2016-2018 and a policy change in 2017 to maintain a contingency reserve will provide the city flexibility to mitigate disruptions should recessionary pressures lead to revenue declines. Historically, finances have been stable, with no large variances compared to the budgets over the last few years, and we expect this trend of stability to continue. For these reasons, the outlook is stable. Generally, our rating outlook time frame is up to two years. However, given the current uncertainty around the pandemic, our view is centered on the more immediate budget effects over the next six to 12 months. Although we expect the rating to remain stable and our outlook is generally for up to two years, we recognize the potential for downside risk because of the uncertainty COVID-19 presents during the next six to 12 months.

For S&P Global Economics' latest U.S. forecast, see "The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020.

The rating reflects the following credit factors:

- Adequate 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 methodology;
- Adequate budgetary performance, with an operating surplus in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 31% of operating expenditures;
- Very strong liquidity, with total government available cash at 94.9% of total governmental fund expenditures and 4.7x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 20.1% of expenditures and net direct debt that is 283.8% of total governmental fund revenue, as well as high overall net debt at greater than 10.0% of market value; and
- Strong institutional framework score.

Environmental, Social, and Governance (ESG)

Our analysis incorporates our view regarding the health and safety risk posed by the COVID-19 pandemic, which we believe could pressure budgets in the near term. Overall, we consider the city's social risks in line with that of the sector. We also analyzed the city's environmental and governance risks relative to its credit factors, and we determined that both are in line with our view of the sector standard.

Stable Outlook

Downside scenario

If sustained or significant deficits lead to substantial declines in reserves, or if recessionary pressures lead to a significant deterioration of the city's key economic metrics, we could consider a lower rating.

Upside scenario

Material economic growth, including improvements to wealth and income levels, combined with a significant decrease in debt, could lead to a higher credit rating, assuming no worsening to other credit metrics.

Credit Opinion

Adequate economy

We consider Spring Hill's economy adequate. The city, with an estimated population of 6,547, is located in Johnson and Miami counties in the Kansas City MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 105.1% of the national level and per capita market value of \$65,820. Overall, the city's market value grew by 11.8% over the past year to approximately \$430.9 million in 2020. Unemployment in Johnson

County has historically trended slightly below state and national averages. After recording a nominal 2.5% unemployment rate in March, COVID-19 and subsequent state-mandated business closures caused unemployment to spike to 10.6% in June. It has since decreased to 6.6% in July, with many businesses reopening.

Roughly 35 miles south of downtown Kansas City, MO., Spring Hill covers approximately 8.3-square miles. Its location along U.S. Highway 169 provides residents' access to Interstate 35 and employment opportunities throughout the Kansas City MSA. Its convenient location, combined with a reputable, well-known school system, has contributed to strong population growth and residential development. Combined with a significant portion of business classified as essential, and able to operate throughout the pandemic, the economy has shown resiliency despite the associated challenges.

The tax-base is diverse, with the top 10 taxpayers responsible for 15.8% of the city's total AV. The two largest taxpayers, AGC Glass Company and A&M Products Manufacturing, represent 8.3% of the total tax base. These two firms are also the city's leading employers aside from the Spring Hill School District (509 employees), with 238 and 175 employees, respectively.

AV growth has averaged 9% over the last five years. Housing permits for the current year are trending slightly above 2019 levels, and construction remains robust despite the pandemic. Also, multiple apartment complexes with roughly 750 total units are in progress within city limits. This will add value to the tax base and benefit the city by spurring additional sales tax collections and commercial development in the area.

Strong management

We view the city's management as strong, with good financial policies and practices under our financial management assessment methodology, indicating our view that financial practices exist in most areas; however, governance officials might not formalize or monitor all of them regularly.

Key practices and policies include management's conservative budgeting, including the analysis of historical revenue and expenditures. Year-to-date budgetary performance information is available to the city council monthly. The city maintains informal five-year general fund financial forecasts that incorporate reasonable growth assumptions. Also, it annually produces a five-year rolling capital improvement plan with funding sources identified. The city does not maintain a formally adopted investment management policy but makes investment earnings available to the council monthly. Spring Hill maintains a formally adopted debt management policy that includes limitations beyond those prescribed by the state. The city's informal target is to maintain an unassigned general fund balance at a minimum of \$750,000.

Adequate budgetary performance

Spring Hill's budgetary performance is adequate, in our opinion. The city reported an operating surplus at 4.3% of operating expenditures in the general fund and 8.2% across all government funds in fiscal 2019. Our assessment incorporates our view that the pandemic and recession pose an event risk that could increase performance volatility for counties in the short- and medium-term.

When assessing the city's budgetary performance, we adjusted for recurring transfers and capital expenditures funded with bond proceeds. Tax revenue, primarily property and sales taxes, comprise the most significant portion of the

city's revenue. Taxes equated to \$4.5 million or 87% of general fund revenues in 2018, of which roughly \$700,000 was collected from sales taxes.

Budgetary performance has generally been stable in the city. After three consecutive surpluses from 2016-2018, unaudited results for 2019 report a modest deficit of roughly \$215,000, or 4% of expenditures. Officials have a history of budgeting conservatively. The 2019 results exceeded expectations, and there was no significant variance when comparing actual results to the budget. With the onset of COVID-19, officials prudently identified areas to curve expenditures, including implementing a hiring freeze and a limited spending model. Anticipated revenue declines due to the recession have not materialized, and sales tax collections for 2020 are trending well above 2019 through August, and city projections expect to roll forward roughly \$150,000. The 2021 budget is balanced, and officials have identified other areas to reduce costs should recessionary pressures increase. We expect that budgetary performance will remain stable.

Very strong budgetary flexibility

The city has very strong budgetary flexibility, in our view, with an available fund balance in fiscal 2018 at 30.5% of \$1.5 million.

In fiscal 2017 the city approved a \$750,000 transfer to the general fund to use as a contingency reserve. This reserve is still in place, and there are no expectations to utilize these funds over the coming years, despite the recessionary pressures faced by cities across the U.S. With no plans to drawdown on these reserves, and stable budgetary performance expected through 2021, we are not expecting any material deterioration to reserves in the coming years.

Very strong liquidity

In our opinion, Spring Hill's liquidity is very strong, with total government available cash at 94.9% of total governmental fund expenditures and 4.7x governmental debt service in 2018.

We anticipate that the city's liquidity position will remain very strong. Our view of the city's strong access to external liquidity reflects its issuance of GO debt over the past 20 years. As of Dec. 31, 2018, city investments primarily consisted of money held in checking accounts with local banks for the Kansas municipal investment pool, U.S. Treasury bills, and the state investment pool. We do not view these investments as aggressive and thus possibly contributing to substantial liquidity volatility. We understand that the city has no contingent liabilities that we believe would cause liquidity pressures.

Very weak debt and contingent liability profile

In our view, Spring Hill's debt and contingent liability profile is very weak. Total governmental fund debt service is 20.1% of total governmental fund expenditures, and net direct debt is 283.8% of total governmental fund revenue. Negatively affecting our view of the city's debt profile is its high overall net debt of 14% of market value. Amortization is rapid, with 78% of debt anticipated to retire within 10 years.

Officials note they may need to finance a few improvement projects over the next couple of years, estimated at roughly \$4.5 million. However, given the pandemic, officials have put this on hold and intend to reevaluate as economic conditions improve.

Although the city has not legally pledged utility revenue to any of its GO bonds outstanding, we note the city's

water/sewer enterprise fund supports approximately 24% of its GO debt with debt service paid from utility revenue. Furthermore, special assessments levied within benefit districts on parcels, specifically benefiting from capital projects, support roughly 34% of the city's GO bonds and notes. Although dedicated utility revenue and taxes support a portion of debt service, we believe that the city's debt burden is high relative to its taxing base when compared with that of similarly rated peers, and we believe that this could challenge its ability to raise taxes for operating purposes.

Pension and other post-employment benefits

On June 30, 2019, the latest measurement date, Spring Hill participates in Kansas Public Employees' Retirement System (KPERS), which was 69.9% funded, with a net pension liability equal to \$2.5 million. Spring Hill's pension and OPEB contributions totaled 4.0% of total governmental fund expenditures in 2019, and the city made its full required contribution. Actuarial assumptions include a 7.75% discount, which we view as aggressive, representing market risk and resulting in contribution volatility if KPERS fails to meet assumed investment targets. Also, contributions are likely to grow due to level-payroll funding rather than level-dollar contributions, which would result in consistent payments.

Spring Hill also maintains OPEB for retired employees and their dependents until the age of 65. The city funds the plan on a pay-as-you-go basis. The city paid \$22,000 in OPEB costs for fiscal 2018, and the unfunded liability was roughly \$31,000. In our opinion, the OPEB plan carries a limited liability risk for the city.

Ratings Detail (As Of September 30, 2020)

Spring Hill GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Spring Hill GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Spring Hill GO temp nts		
<i>Short Term Rating</i>	SP-1+	Affirmed
Spring Hill GO temp nts ser 2020A dtd 11/04/2020 due 09/01/2021		
<i>Short Term Rating</i>	SP-1+	Affirmed
Spring Hill GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Spring Hill GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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