

# RatingsDirect®

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## Summary:

# Spring Hill, Kansas; General Obligation

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Credit Profile		
US\$5.145 mil GO bnds ser 2023A due 09/01/2033		
Long Term Rating	AA/Stable	New
Spring Hill GO		
Long Term Rating	AA/Stable	Upgraded

## Credit Highlights

- S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'AA' from 'AA-' on the City of Spring Hill, Kan.'s general obligation (GO) bonds outstanding
- At the same time, S&P Global Ratings assigned its 'AA' long-term rating to the city's anticipated \$5.1 million series 2023A bonds.
- The outlook is stable.
- The raised rating is based on the city's economic expansion and consistent financial performance.

## Security

The bonds 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. Some of the city's bonds outstanding are also secured by a pledge of special assessment levied upon property benefiting from the projects funded with the bond proceeds. We lack sufficient information to assess the special assessment pledge, and our rating is therefore based on the city's unlimited ad valorem pledge.

Bond proceeds will be used to fund street projects.

## Credit overview

Spring Hill benefits from its location near the broad and diverse Kansas City metropolitan statistical area. Due to its convenient location, combined with a reputable school district, the city experienced substantial growth over the past five years. Historically, finances have been stable, with the city transferring excess surplus from its general fund to capital funds while maintaining very strong reserves. In addition, the city plans to grow its reserve to six months by 2026 as part of its plans to increase its minimum reserve from \$750,000 and to replace its reserve target with a written policy. Spring Hill's debt burden is high, as multiple projects have been taken on to support the city's growth and population increases. Although the debt is high, we view it as manageable as payments have not pressured the city's budgets. Given the above, we do not expect to change the rating over the two-year outlook period.

The rating also reflects our view of the city's:

- Residential growth, which contributed to strong average annual assessed value growth of 14% over the past four years;

- Very strong available reserves, which increased to just over \$1 million for fiscal 2021;
- Good financial management policies and practices, and strong institutional framework; and
- High debt burden relative to peers, somewhat offset by rapid amortization.

### Environmental, social, and governance

In our view, the city's environmental, social, and governance risks are neutral considerations in our credit rating analysis.

## Outlook

The stable outlook is based on the city's history of conservative budgeting practices that consistently produce better-than-budgeted results. Although the debt burden is high, we do not expect it will create budgetary pressure because we believe strong tax base growth will sufficiently support debt service.

### Downside scenario

If sustained or significant deficits lead to substantial declines in reserves, we could consider a lower rating.

### Upside scenario

A significant decrease in debt, combined with higher available reserves, could lead to a higher credit rating, assuming no worsening to other credit metrics.

## Credit Opinion

### Growing community south of Kansas City, with residential development driving property tax growth

Approximately 35 miles south of downtown Kansas City, Mo., Spring Hill's convenient location, combined with a reputable, well-known school system, has contributed to strong population growth and residential development. Building permits for new single-family residences reached a record high of 284 in 2021. Permits were lower in 2022, but overall tax base growth was still strong, up 12% for the 2023 tax year and by a 14% annual average over the last four years. We note market value for fiscal 2022 declined slightly due to a drop in state-assessed utilities. Strong tax base growth is expected to continue as the former Wiswell Farms will be developed into commercial uses and 400 single-family and multifamily dwellings. As the city nears a population of 10,000, management reports it is attracting more national retailers and restaurants.

### Good financial management policies and practices, with a track record of conservative budgeting

Highlights of the city's policies and practices include:

- Analysis of historical revenue and expenditures when developing budgetary assumptions, with consistently better-than-budgeted actual results across both revenue and expenditures;
- Monthly budget-to-actual performance reported to the city council;
- A five-year rolling capital improvement plan, with funding sources identified;
- Investment holdings reported to the council monthly;

- A formally adopted debt management policy that includes limitations beyond those prescribed by the state; and
- An informal target to maintain an unassigned general fund balance at a minimum of \$750,000, though, the city is in the process of revising its target with a written policy that will raise the minimum to a six-month reserve, currently equal to about \$3.3 million, which it expects to reach by 2026.

Currently the city does not have a formal investment management policy, although it has historically held its funds in cash with no investments. Management reports it is currently developing a long-term financial plan.

The city experienced a temporary data breach in October 2022. The breach was limited to a small proportion of its utility customer data. City services were not interrupted. Subsequently, the city has retained external consultants to enhance and monitor its systems.

The institutional framework score for Kansas municipalities with more than \$275,000 in annual gross receipts and more than \$275,000 in GO or revenue bonds outstanding is strong.

### **Stable budgetary performance, with continued maintenance of very strong available reserves**

Budgetary performance has generally been stable with consistent general fund surpluses, except for years in which transfers to capital funds occurred, which are done regularly to reduce debt financing requirements. Tax revenue, primarily property (41%) and sales taxes (37%), made up most of the city's general fund revenue for audited fiscal year ended Dec. 31, 2022. The city adopted a balanced general fund budget for fiscal 2022, and officials indicate actual results are better than budget, adding about \$1 million to fund balance due to under spending and revenue over budget, driven by sales and franchise tax revenue. The fiscal 2023 budget is balanced and assumes a 5% increase in revenue, compared with a 6% increase in tax revenue for fiscal 2022. Management expect to fund the growth-driven increase in services, such as public safety, without increasing its overall expenditure budget. The city plans to grow its reserve to six months by 2026 as part of its plans to increase its minimum reserve and to replace its reserve target with a written policy.

### **High debt burden, with rapid amortization**

After this issuance, the city will have approximately \$32 million in net direct debt outstanding, accounting for GO bonds self-supported by the water and sewer utilities. Management does not expect to need to raise the tax rate to fund the series 2023A bonds. The city's debt burden as a percentage of market value is high at nearly 10%, though we anticipate it will continue to moderate as tax base growth is expected to outpace the minimal new debt expected over the next several years. The city expects to issue about \$7.4 million of additional debt in 2024 and \$6.1 million in 2025 for additional street projects. The city's amortization rate is rapid, which we view as a positive factor.

### **Pension and other postemployment benefits (OPEB) costs not an immediate credit pressure**

We do not expect pension and OPEB contributions will be an immediate source of credit pressure given costs compose a relatively small portion of the overall budget and the city's OPEB liability is limited. However, we note that some plan-level assumptions could make funding progress slow and lead to contribution volatility.

The city participates in the following plans:

- Kansas Public Employees Retirement System (KPERS): 76.4% funded using a 7.25% discount rate, with a proportional share of the net pension liability equal to \$2.8 million.

- The city allows retirees to participate in the group health insurance plan until age 65. While each retiree pays the full amount of the applicable premium, the city is conceptually subsidizing the retirees, because each participant is charged a level of premium regardless of age.
- In addition, under state law, disabled members of KPERS receive long-term disability benefits and life insurance benefits. The plan is administered through a trust held by KPERS that is funded to pay annual benefit payments.

Although the city funds 100% of its actuarially determined contribution, fiscal 2021 actual contributions fell short of our minimum funding progress calculation. However, contributions exceeded our static funding metric, which indicates, at least, a stable liability but little or no progress in reducing that liability. In general, we expect progress toward full funding will be slower given the plan's amortization basis of level percent using a payroll growth assumption of 3.5%, over a closed period of 15-24 years. Furthermore, we believe KPERS' discount rate of 7.25% could lead to some contribution volatility.

### Spring Hill, Kansas--Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Strong economy				
Projected per capita EBI % of U.S.	103			
Market value per capita (\$)	140,457			
Population		6,929	6,836	6,547
County unemployment rate(%)		2.8		
Market value (\$000)	973,230	657,931		
Ten largest taxpayers % of taxable value	12.9			
Strong budgetary performance				
Operating fund result % of expenditures		5.2	(5.2)	(3.6)
Total governmental fund result % of expenditures		6.8	14.5	8.5
Very strong budgetary flexibility				
Available reserves % of operating expenditures		21.8	17.4	23.3
Total available reserves (\$000)		1,257	959	1,244
Very strong liquidity				
Total government cash % of governmental fund expenditures		132	151	138
Total government cash % of governmental fund debt service		781	658	664
Strong management				
Financial Management Assessment	Good			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		16.9	22.9	20.8
Net direct debt % of governmental fund revenue	206			
Overall net debt % of market value	9.8			
Direct debt 10-year amortization (%)	77			
Required pension contribution % of governmental fund expenditures		3.3		
OPEB actual contribution % of governmental fund expenditures		0.1		

## Spring Hill, Kansas--Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019

**Strong institutional framework**

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments

## Ratings Detail (As Of March 2, 2023)

Spring Hill GO (BAM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
Spring Hill GO (BAM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
Spring Hill Taxable GO rfdg bnds		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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