

*MR/STIEHL*

# Moody's Investors Service – September 2020 Credit Presentation

STIEHL

*MR*

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Issuers of debt in the municipal capital markets may apply to one of the national credit rating agencies (Moody's, S&P, Fitch, Kroll) to obtain a third party review of the issuer's credit standing

- **Why?** Credit ratings reduce borrowing costs and offer investors comfort in purchasing the issuer's debt (some investors cannot buy non-rated debt).
- **Process** – Application by Issuer, presentation of financial records to rating agency, responses to written questions and participation in oral rating call.

## Credit Rating Chart

<u>Credit Quality</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>	<u>Fitch</u>
Investment Grade			
Prime	Aaa	AAA	AAA
Excellent	<b>Aa1</b> , <b>Aa2</b> , Aa3	AA+, AA, AA-	AA+, AA, AA-
Upper medium	A1, A2, A3	A+, A, A-	A+, A, A-
Lower medium	Baa	BBB	BBB
Non-investment grade			
Speculative	Ba	BB	BB
Very speculative	B, Caa	B, CCC, CC	B, CCC, CC, C
Default	Ca, C	D	DDD, DD, D

**Green** = JACO current rating

**Orange** – JACO previous rating



**Issuer Credit Rating (ICR)** = the underlying credit rating assigned to a particular issuer. This represents the best credit position and focuses on general obligation debt and full and credit pledges of the issuer.

**Bond Issue Rating** = the particular rating assigned to a specific bond issue reflecting reductions (notches) from the **ICR** based on criteria such as “essentiality” and “annual appropriation risk”.

In conjunction with the planned issuance of the Series 2020 Special Obligation Refunding Bonds (Animal Shelter Project) we reached out to Moody's on behalf of the county to secure a rating on the bond issue. We provided Moody's with updated financials for the County, past and current budgets and the draft Preliminary Official Statement for the issue.

Moody's then submitted written questions which were answered based on input from county staff and we all participated in a rating call on August 25<sup>th</sup>. Post-call questions were answered and the rating was received on September 3, 2020.

## Upgrade!

During the course of the rating call the credit analyst indicated that the county might be in a position for a rating increase. Ultimately that is what occurred when the Moody's credit committee reviewed the county's credit. **The County's previous rating Aa2 was raised to Aa1!**

Surrounding jurisdictions carry similar ratings:

KCMO – Aa2; Clay COMO – Aa1; Lee's Summit – Aaa; Raytown FPD – Aa3; Grandview – AA- (S&P); Central Jackson FPD – AA (S&P); Johnson COKS – Aaa; Unified Gov, KS – A1

## Highlights of the Moody's Credit Report (attached)

### Credit strengths

- » Very large and growing tax base that serves as the regional economic center
- » Sustained trend of **sound financial operations** marked by **healthy operating reserves**

### Credit challenges

- » Exposure to **enterprise risk** from a **county owned hospital**
- » Dependence on **economically sensitive sales tax revenue**
- » Limited revenue raising flexibility due to the state's Hancock Amendment

### **Rating outlook**

The stable outlook reflects our expectation that continued economic expansion and prudent financial management will support maintenance of a healthy operating position.



# Questions?

## APPENDIX A -

Copy of Moody's Investor Service Credit Report on  
Jackson County, MO dated September 3, 2020

# MOODY'S

## INVESTORS SERVICE

### CREDIT OPINION

3 September 2020

✓ Rate this Research

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## Jackson (County of) MO

Update following upgrade of issuer rating to Aa1

### Summary

The credit profile of [Jackson County, MO](#) (Aa1 stable) benefits from the county's very large and growing tax base that is home to [Kansas City](#) (Aa2 stable) and serves as the regional economic center for employment, leisure, and retail activity. The profile is also supported by a sustained trend of sound financial operations marked by healthy operating reserves and manageable debt and pension burdens. These attributes are weighed against exposure to enterprise risk from a county owned public safety net hospital, dependence on economically sensitive sales tax revenue, and the limited revenue raising flexibility due to the state's Hancock Amendment.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for the county given sound financial operations marked by healthy operating reserves. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the county changes we will update our opinion at that time.

On September 1, 2020 Moody's upgraded the county's issuer rating to Aa1 from Aa2, annual appropriation rating on debt issued for essential purposes to Aa2 from Aa3, and annual appropriation on debt issued for less essential purposes to Aa3 from A1.

### Credit strengths

- » Very large and growing tax base that serves as the regional economic center
- » Sustained trend of sound financial operations marked by healthy operating reserves

### Credit challenges

- » Exposure to enterprise risk from a county owned hospital
- » Dependence on economically sensitive sales tax revenue
- » Limited revenue raising flexibility due to the state's Hancock Amendment

### Rating outlook

The stable outlook reflects our expectation that continued economic expansion and prudent financial management will support maintenance of a healthy operating position.



## Factors that could lead to an upgrade

- » Sustained and material strengthening of operating reserves
- » Further significant taxable value growth
- » Upgrade of the county's issuer rating (appropriation ratings)

## Factors that could lead to a downgrade

- » Failure to appropriate and pay debt service on any of the county's appropriation debt
- » Erosion of operating reserves
- » Material further leveraging of the tax base absent corresponding taxable value or revenue growth
- » Downgrade of the county's issuer rating (appropriation ratings)

## Key indicators

Exhibit 1

Jackson (County of) MO	2015	2016	2017	2018	2019
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$41,744,346	\$42,433,882	\$45,409,300	\$46,062,320	\$55,226,451
Population	680,905	683,643	688,554	692,003	703,011
Full Value Per Capita	\$61,307	\$62,070	\$65,949	\$66,564	\$78,557
Median Family Income (% of US Median)	92.5%	92.2%	92.0%	92.7%	92.7%
<b>Finances</b>					
Operating Revenue (\$000)	\$135,554	\$138,724	\$139,991	\$165,115	\$184,196
Fund Balance (\$000)	\$43,133	\$48,252	\$52,352	\$76,381	\$101,073
Cash Balance (\$000)	\$19,014	\$21,462	\$26,998	\$38,733	\$58,792
Fund Balance as a % of Revenues	31.8%	34.8%	37.4%	46.3%	54.9%
Cash Balance as a % of Revenues	14.0%	15.5%	19.3%	23.5%	31.9%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$445,011	\$470,860	\$446,666	\$421,739	\$396,276
3-Year Average of Moody's ANPL (\$000)	\$133,651	\$167,764	\$179,365	\$198,022	\$186,276
Net Direct Debt / Full Value (%)	1.1%	1.1%	1.0%	0.9%	0.7%
Net Direct Debt / Operating Revenues (x)	3.3x	3.4x	3.2x	2.6x	2.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.3%	0.4%	0.4%	0.4%	0.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.0x	1.2x	1.3x	1.2x	1.0x

Source: Jackson County's audited financial statements; US Census Bureau; Moody's Investors Service

## Profile

The county is located on the western border between [Missouri](#) (Aaa stable) and Kansas (Aa2 stable) and encompasses 18 incorporated municipalities including the City of [Kansas City](#) (Aa2 stable). Jackson County is the second most populous county in Missouri with an estimated population of 703,000 residents and serves as the regional economic center for employment, leisure, and retail activity.

## Detailed credit considerations

### Economy and tax base: regional economic center; home to Kansas City

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, healthcare, retail, and oil and gas could suffer particularly severe impacts. The effect on local governments will vary based on the extent

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and duration of local disruption and could be more or less severe than the nation overall. The evolution of the crisis remains highly uncertain and the full extent of the economic costs will be unclear for some time.

Jackson County's modest annual economic expansion is expected to continue given the county's status as the regional economic center driving residential and commercial development throughout the county. Over the past five years, assessed valuation grew 6.9% on average, including a 19.9% increase in 2019 to \$55 billion (which funds fiscal 2020 operations). Reassessment occurred in 2019 and the sizable taxable value growth drove a significant increase in valuation protests. Typically, the county assessor processes approximately 1,100 valuation protests, but protests related to the 2019 reassessment jumped to approximately 20,000, including nearly 1 in 5 commercial properties. Preliminary estimates for 2020 indicate a modest 3% contraction in property values as a result of the protests; values will be certified in September.

Resident income indices are slightly below average with median family income equal to 92.7% of the US, however, the county remains affordable relative to the rest of the nation with a median home value equal to 67.8% of the US. Similar to the rest of the nation, the county's unemployment rate skyrocketed in response to the coronavirus pandemic and resulting economic shutdown. The county's June 2020 unemployment rate of 8.8% fared worse than the state's 7.9%, but was better than the national rate of 11.2% for the same period.

#### **Financial operations and reserves: sustained trend of sound financial operations marked by healthy operating reserves**

As a result of the pandemic, the county's revenues are expected to see some decline in fiscal 2020 and into fiscal 2021, however, operations are expected to remain stable and reserves healthy given the county's forecasting and conservative budgeting practices.

Administrative changes coupled with increased sales and property tax revenue resulting from the healthy underlying economic activity drove significant positive financial performance in the past two years. In 2018, the county collected all general sales tax revenue into the general fund whereas previously this revenue was allocated across four different funds. The expenditures related to that revenue was also moved into the general fund but the revenue far outpaced the expenditure structure. Coupled with a minimal increase in debt service reserves, the administrative change produced a \$24 million operating surplus in fiscal 2018 and pushed available operating reserves to \$76.4 million, representing a healthy 46.3% of operating revenue.

In fiscal 2019 (fiscal year end December 31) modest growth in sales tax revenue and an 87% increase in property tax revenue resulting from the elimination of voluntarily imposed property tax reductions produced another sizable surplus of \$24.6 million and improved available operating reserves to \$101 million, representing 54.9% of operating revenues. The entirety of the eliminated property tax rollback was budgeted for capital improvements even though the county didn't have a definitive plan to spend the entirety of these funds.

County officials adjusted the fiscal 2020 budget to anticipate a sales tax revenue decline of up to 10%, though officials report collections through July 2020 were only down about 4%. As a result of the anticipated sales tax decline, officials also adjusted expenditures by implementing a hiring freeze for less essential positions and reducing discretionary spending in other areas. The budget also includes funding for pay-go capital projects that is unlikely to be utilized in fiscal 2020. As a result, officials anticipated closing fiscal 2020 balanced relative to budget.

Additionally, the county received \$122.6 million from the CARES Act. Cities in the county with more than 5,000 residents were allocated direct aid while cities with less than 5,000 residents can submit expenditures directly to the county for reimbursement. Management allocated approximately one-third of the funding to the county health department, directed \$40 million to the county owned public safety net hospital, and set aside \$10 million for potential expenses in the event of a second pandemic wave. The county is required to provide for indigent care and owns the physical and capital assets of the hospital but leases the facility to a third party operator. The county provides for the hospital through a dedicated property tax levy and a portion of the county's general sales tax; the appropriation is approximately \$10 million annually.

The fiscal 2021 budget will be adopted in December and officials anticipate a flat budget relative to fiscal 2020 to reflect anticipated economic lethargy and uncertainty and the resulting continued pressure on sales tax revenue.

#### **Liquidity**

The county closed fiscal 2019 with \$58.8 million in operating cash and investments, representing 31.9% of operating revenues.



### Debt and pensions: manageable fixed cost burden comprised of moderate debt and pension obligations

The county's debt burden will remain manageable given ongoing assessed valuation growth. The county's direct debt burden is average at 0.7% (2.7% overall) of fiscal 2020 valuation. Management has plans for a sizable issuance for a county law enforcement center within the next couple of years and the hospital and county are considering items to upgrade hospital facilities and equipment, some of which was addressed through CARES Act funding. Any additional federal funding and the county's pay-go set aside will be used to offset debt financing.

#### Legal security

The Series 2020 bonds are special obligations of the county payable solely from amounts appropriated in each fiscal year out of the income and revenues of the county in the current fiscal year plus any unencumbered balances from previous years. The county legislature has directed the finance director or any other officer of the county at any time charged with the responsibility of formulating budget proposals to include in each annual budget an appropriation of the amount necessary to pay debt service on the bonds; the decision whether or not to appropriate such funds will be solely within the discretion of the then current county legislature. No property of the county is pledged or encumbered as security for payment of the bonds.

The county plans to use funds from property and sales taxes and other revenues to provide for the payment of debt service.

The Aa2 appropriation debt is secured by the county's annual appropriation pledge and include essential projects such as improvements to the Truman Medical Center, road and bridge improvements, and county parking garage.

The Aa3 appropriation debt is secured by the county's annual appropriation pledge and includes less essential projects such as the Truman Sports Complex and the animal shelter.

#### Debt structure

All of the county's debt is fixed rate and matures over the long-term (final maturity in fiscal 2045). The majority of the county's debt are special obligations subject to annual appropriation, including the current issuance, with 75% of the principal repaid within ten years.

#### Debt-related derivatives

The county is not party to any interest rate swaps or other derivative agreements.

#### Pensions and OPEB

The county participates in the Jackson County Missouri Revised Pension Plan, a cost-sharing multiple-employer defined benefit pension plan for which the county is the administrator. Contributions are subject to annual appropriation and the county has the right under the plan to discontinue such contributions at any time and terminate the plan. Moody's three-year adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, is \$186.3 million, equal to a modest 1.0 times operating revenue and 0.3% of full value.

Fixed costs, comprised of operating fund debt service (\$47 million), pension "tread water" contributions (\$6.3 million), and minimal OPEB contributions totaled \$53.4 million in fiscal 2019, representing high 29% of operating revenues. While the fixed cost burden appears high, 64% of the county's debt service payment is directly supported by a stadium sales tax pledged to repayment. Fixed costs fall to a materially lower 17.8% when considering the dedicated support for the stadium debt.

The fiscal 2019 pension contribution exceeded "tread water" by \$2.4 million, or 1.3% of operating revenues. The "tread water" indicator measures the annual government contribution required to prevent the reported NPL from growing, under reported assumptions. Contributions above this level cover all NPL interest plus pay down some principal, making them stronger from a credit perspective than contributions below this level. We expect that the county will adequately incorporate rising pension costs into its budget while maintaining operational balance.

### ESG considerations

#### Environmental

Environmental considerations do not present material risks to the county's credit profile. Jackson County's location puts it at a high risk for heat stress, medium risk for extreme rainfall, and low risk for water stress. Extreme weather events, including localized flooding, are also typically accompanied by state and federal assistance, which further mitigates environmental risk.



## Social

Social considerations do not present material risks to the county's credit profile. Demographic and economic trends along with the impact of the coronavirus pandemic are discussed above in the summary and economy and tax base sections.

## Governance

The county is governed by a County Executive who is the chief executive officer of the county and elected to a four-year term. The legislative body is comprised of nine members, one from each of the county's six districts and three elected at-large; all are elected to four year staggered terms. The legislative body may adopt ordinances that the County Executive may either approve or veto; the legislature can override a veto with six votes. Management plans to approach the legislative body in the fall enact a formal reserve policy to maintain a general fund reserve equal to 17% of expenditures; the county has exceed this threshold each of the past six years.

Missouri Counties have an Institutional Framework score of "A", which is moderate. Sales tax revenues, the sector's major revenue source, require voter approval and typically contain sunset provisions. Property tax revenues are subject to a cap via the Hancock Amendment which can be overridden with voter approval only. Unpredictable revenue fluctuations tend to be minor, or less than 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

## Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

### Jackson (County of), MO

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) <sup>[1]</sup>		
Tax Base Size: Full Value (in 000s)	\$55,226,451	Aaa
Full Value Per Capita	\$78,557	Aa
Median Family Income (% of US Median)	92.7%	Aa
Notching Factors: <sup>[2]</sup>		
Regional Economic Center		Up
Finances (30%)		
Fund Balance as a % of Revenues	54.9%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	32.3%	Aaa
Cash Balance as a % of Revenues	31.9%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	23.3%	Aa
Notching Factors: <sup>[2]</sup>		
Outsized Enterprise or Contingent Liability Risk		Down
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.1x	Aaa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.7%	Aaa
Net Direct Debt / Operating Revenues (x)	2.2x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.3%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.0x	A
Scorecard-Indicated Outcome		Aa1
Assigned Rating		Aa1

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: Jackson County's audited financial statements; US Census Bureau; Moody's Investors Service



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