S&P Global
Ratings

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Summary:
Burlington, Iowa; General Obligation

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Summary:

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Credit Profile		
US$5.655 mil GO corp purp bnds ser 2020C due 06/01/2037		
Long Term Rating	A+/Stable	New
US$5.44 mil GO rfdg bnds ser 2020A due 06/01/2031		
Long Term Rating	A+/Stable	New
US$4.16 mil taxable GO rfdg bnds ser 2020B due 06/01/2025		
Long Term Rating	A+/Stable	New

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Burlington, Iowa's series 2020A general obligation (GO) refunding bonds, taxable series 2020B GO refunding bonds, and series 2020C GO corporate purpose bonds. At the same time, we affirmed our 'A+' long-term rating on the city's existing GO debt. The outlook on all ratings is stable.

Security and use of proceeds

The city's unlimited ad valorem tax GO pledge secures the bonds. Proceeds of the series 2020A and B bonds will be used to refund various outstanding bonds for expected interest cost savings. Proceeds of the 2020C bonds will be used to refund the city's outstanding bond anticipation note (BAN) placed with a local bank and new money for street improvements and a flood protection wall.

Credit overview

Burlington is in southeastern Iowa on the Mississippi River. It is characterized by an employment base that is cyclical, given a relatively high level of area manufacturing jobs, and an unemployment rate that runs above the state average. The city's and the county's populations have declined with further decreases projected. We view the economy as weak despite a growing tax base. The latter has allowed for an improved financial position and the city is now in compliance with its fund balance policy of 15% of expenditures. Moreover, in our opinion, the city's ability to shoulder additional debt may also present challenges, given its very weak economic profile.

Stable Two-Year Outlook

Upside scenario

We could raise the rating if the city's economic metrics were to improve significantly, and if its budgetary flexibility is sustained at very strong, in combination with improvement in the debt profile.

Downside scenario

We could lower the rating if the city's budgetary performance were to deteriorate, causing a material decline in budgetary flexibility.

The 'A+' rating reflects our view of the city's:

- Weak economy, with projected per capita effective buying income (EBI) at 81.0% of the national level and market value per capita of $56,823;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 53.5% of total governmental fund expenditures and 3.4x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 15.8% of expenditures and net direct debt that is 135.0% of total governmental fund revenue, but rapid amortization, with 81.7% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Weak economy

We consider Burlington's economy weak. The city, with an estimated population of 25,015, is in Des Moines County in southeast Iowa. It has a projected per capita EBI of 81.0% of the national level and per capita market value of $56,823. Overall, market value grew by 5.0% over the past year to $1.4 billion in 2021. The county unemployment rate was 3.3% in 2018.

The improvement in the economy to weak from very weak is based on continued tax base growth and the resulting market value per capita.

Burlington is a manufacturing-based economy. Major employers in the city include Great River Medical Center (over 1,000 employees), the agriculture and construction equipment manufacturer Case New Holland (500-1,000), Shearer's Food (500-1,000), and explosives manufacturer American Ordnance (500-1,000). The city also has a casino/hotel (500-1,000).

Burlington had seen a temporary uptick in retail activity during the construction of a substantial fertilizer plant approximately 10 miles to the south. During its peak, the plant had approximately 3,500 construction workers. Management estimates there are roughly 300 full-time permanent employees now that the plant is complete.

Residential growth has been modest as the city's population been slowly declining for several decades. The city is seeing some new development related to rental apartments downtown. Its actual and taxable valuations have continued to grow modestly despite the population declines. Given current developments, we expect there to be ongoing slow growth.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

We now view overall management conditions as very strong given improvement in the FMA to strong from good.

In developing its annual budget, the city uses three-to-four years of historical data as well as its long-term financial plan to assist with revenue and expenditure estimates. Burlington also provides budget-to-actual performance monthly to the city council. The city maintains a long-term capital planning document that is updated annually, with funding sources identified. It has its own investment policy that follows state guidelines, and currently only invests in CDs. The city has a debt management policy that follows state limitations, and provides additional guidance regarding length of maturities, savings required for refundings, and a 30% margin below the state limitation for GO debt in case of emergencies. It implemented its fund balance policy in 2012 when reserves were considerably lower, with the goal of achieving the policy level in 10 years. The policy calls for 15% of expenditures in undesignated reserve. The city met this policy in fiscal 2019, as expected.

Adequate budgetary performance

Burlington's budgetary performance is adequate, in our opinion. The city had surplus operating results in the general fund of 2.1% of expenditures, but a deficit result across all governmental funds of negative 4.5% in fiscal 2019.

We have adjusted general fund revenues and expenditures to account for annually recurring transfers in from its local option sales tax (LOST), employee benefits, and certain enterprise funds and budgeted transfers out to debt service, capital projects, and certain enterprise funds. Hotel/motel tax revenues are received in the general fund and transferred out for various purposes. We also adjusted total governmental fund revenues and expenditures to account for recurring transfers in and out of enterprise funds, one-time capital projects, and bond refundings.

The city has had adequate-to-strong general fund and total governmental fund performance over the last three fiscal years.

For fiscal 2020, Burlington projects at least a $150,000 general fund surplus on a cash basis, some of which may be spent on one-time capital projects. Total governmental funds are expected to remain stable after adjustments. The city is in the process of adopting its fiscal 2021 budget. Management expects that the final budget will call for at least break-even operations or a small surplus.

In fiscal 2019, property taxes (including transfers from the employee benefits fund) represented 33% of general fund revenues, followed by transfers from the sales tax fund at 17%. We expect these revenue streams to remain stable over the next two fiscal years.

Should the state eliminate backfill payments, the city could lose up to $510,000 in state revenue.

Very strong budgetary flexibility

Burlington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 16% of operating expenditures, or $3.2 million.

The city has improved its budgetary flexibility in recent years, having increased its available fund balance from its low of 1.8% in 2012 to over 16% in fiscal 2019. Based on current projections for fiscal 2020, we expect budgetary flexibility to remain very strong. The city has an additional $711,000 restricted in its LOST fund.

Very strong liquidity

In our opinion, Burlington's liquidity is very strong, with total government available cash at 53.5% of total governmental fund expenditures and 3.4x governmental debt service in 2019. In our view, the city has strong access to external liquidity if necessary.

The city had roughly $20 million of cash and liquid investments available at fiscal year-end 2019. We consider its access to external liquidity strong based on its frequent issuance of GO debt over the last 20 years and expected market access. We do not view its investments as aggressive because the majority are in CDs. It has no variable-rate debt. The city's series 2012 GO bonds, of which $439,000 in principal is outstanding, were privately purchased by Two Rivers Bank & Trust of Burlington. We do not believe the private purchase poses a liquidity risk because the loan agreement does not include any acceleration provisions or other covenants that could impair the city's credit quality. We do not anticipate a weakening of the liquidity position in the next few years.

Weak debt and contingent liability profile

In our view, Burlington's debt and contingent liability profile is weak. Total governmental fund debt service is 15.8% of total governmental fund expenditures, and net direct debt is 135.0% of total governmental fund revenue. Approximately 81.7% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city has no formalized additional debt plans in the next two years although it is a regular issuer of debt.

Burlington's combined required pension and actual OPEB contributions totaled 5.8% of total governmental fund expenditures in 2019. The city made its full annual required pension contribution in 2019.

Burlington participates in two pension plans, the Iowa Public Employees' Retirement System (IPERS) and the Municipal Fire and Police Retirement System of Iowa (MFPRSI). Both plans are cost-sharing, multiple-employer, defined-benefit pension plans.

- We believe that pension liabilities represent a manageable source of credit pressure, as the city is currently exposed to modest unfunded liabilities.
- Although the city funds its OPEBs on a pay-as-you-go basis, exposing it to cost acceleration and volatility, we expect that medium-term costs will remain only a small share of total spending and, therefore, not a significant budgetary pressure.

The city participates in the following plans:

- IPERS, 84% funded (as of June 30, 2019), with the city's proportion of the net pension liability $5.7 million;
- MFPRSI, 81% funded (as of June 30, 2019), with city's proportion of the net pension liability $11.2 million; and
- An implicit rate subsidy arising from retirees staying on the city's plan while paying active premium rates with an OPEB liability of $823,000.

Burlington's combined pension and OPEB contributions were 5.8% of governmental fund expenditures in fiscal 2019, of which 5.7% represented required pension contributions and 0.1% OPEB payments. The city's 2019 actuarially determined IPERS and MFPRSI contributions exceeded 100% of our static funding metric, but fell short of our minimum funding progress metric. In general, we expect progress toward full funding to be slower given IPERS' amortization basis of level percentage over a closed period of 28 years. Furthermore, we believe the discount rates of 7.0% could lead to contribution volatility. We expect contributions will remain relatively stable, and, given the plan's strong funded status and contribution practices, we expect contributions will remain affordable.

Strong institutional framework

The institutional framework score for Iowa cities with a population greater than 2,000 is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

Ratings Detail (As Of March 5, 2020)		
Burlington GO		
Long Term Rating	A+/Stable	Affirmed
Burlington GO		
Long Term Rating	A+/Stable	Affirmed