

RatingsDirect®

Summary:

Missouri Development Finance Board Branson; Appropriations

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Long Term Rating A-/Stable Outlook Revised

Rating Action

S&P Global Ratings revised the outlook to stable from negative and affirmed its 'A-' long-term rating on the Missouri Development Finance Board's series 2012A and 2015A infrastructure facilities revenue bonds (Branson Landing Project) and 'A' long-term rating on the board's 2011A infrastructure facilities revenue bonds. All bonds were issued for Branson.

The outlook revision reflects our view of the city's proactive measures to stabilize finances through cost-cutting measures, despite experiencing declines in primary revenue sources during the pandemic. This resulted in reserves and flexibility remaining stable during 2020 instead of the projected large deficit spending. Further supporting the outlook revision is the city's conservative budgeting approach with balanced-to-surplus results projected for 2021 and budgeted for 2022.

The 2012A and 2015A bonds are special obligations of the city, secured by annually appropriated legally available funds. We rate these obligations two notches lower than the city's general creditworthiness to reflect the appropriation risk associated with the annual payment and the city's significant reliance on a comparatively narrow revenue stream (including tax increment and redevelopment revenue). A significant or prolonged decline in said revenue stream would likely result in significant budgetary pressure given the city's highly leveraged position with debt service on the Branson Landing bonds totaling roughly 17% of total governmental revenue in 2021 and total carrying charges equating to 49.3% of fiscal 2020 governmental expenditures. In addition, we view these bonds as having a moderate relationship to the city. These obligations refunded issuances that provided funding for Branson Landing (including the construction of a convention center, a parking garage, a boardwalk, a town square, and assorted street and bridge improvements), which we believe represents an auxiliary function of the city. Branson pledges to annually appropriate from operating revenue, and has a long track record of appropriating for similar obligations. We see no unusual political, timing, or administrative risk related to the debt payment.

Lease rental payments by the city, as lessee, to the board, as lessor secure the 2011A bonds. We rate this obligation one notch lower than the city's general creditworthiness to account for the appropriation risk associated with the lease payment. The city has pledged its best efforts to seek appropriations annually out of its operating budget, and has considered the affordability of the lease payment in its long-term plans. We considered the affordability and likelihood of the lease payment, which is reflected in the (appropriation) rating and in our view of the city's general creditworthiness. In our view, the lease features and terms are standard with no unusual risks regarding timely payment of debt. There is no abatement or construction risk.

Credit overview

The city relies primarily on sales tax revenue for general fund operations, and its economic base is concentrated in the tourism industry. Given this combination, its primary revenue sources declined during the pandemic as entertainment venues and events were shut down temporarily. We note, however, that officials have taken significant steps to cut and control expenditures to offset revenue declines, resulting in only a modest deficit in 2020 when compared with the projected near halving of general fund reserves. With cost-cutting measures already in place and capital projects postponed, officials anticipate balanced-to-surplus results in 2021 and 2022, in line with its formal reserve policy of maintaining a minimum 20% reserve balance with a goal of 30%. Additionally, Branson offers numerous outdoor activities, which saw less of an impact as a result of the pandemic as compared with entertainment venues, somewhat mitigating the impact of the pandemic on Branson's tourism. As a result, we anticipate stability over the outlook horizon.

In our view, the city's high debt levels and elevated debt service carrying charges temper these strengths. The city has issued significant appropriation-backed debt and intends various sales tax and tax increment revenue from economic development areas as the source for repayment. This debt profile presents inherent risk given the potential for the general fund's need to support future debt service should intended revenue fall short of expectations. Historically, the city has effectively managed its debt burden, and we believe that officials' proactive budget management will allow it to continue to do so over the medium term. However, should this not prove to be the case and should the city's elevated carrying charges begin to pressure operations, we could lower the rating by one or more notches.

The ratings further reflect our view of the city's:

- Stable reserve position around 30% of operating expenditures, after significant cost-cutting measures were put in place, with balanced-to-surplus results anticipated for 2021 and 2022;
- Local economy concentrated in leisure and hospitality with strong tourism presence and reliance on its tourism base for its primary revenue sources, both of these being negatively affected during the pandemic as a result of temporary closures, with county unemployment above 10% in 2020;
- Good financial management practices and policies that helped negate effects on reserves and liquidity stemming from the pandemic and an institutional framework we consider adequate; and
- Very weak debt burden with carrying charges close to 50% of total governmental expenditures, but with rapid amortization and limited near-term debt plans.

Environmental, social, and governance (ESG) factors

We no longer consider the city's social risks elevated compared with those of peers as a result of the COVID-19 pandemic or otherwise. While 2020 revenue was negatively affected during the pandemic, entertainment venues and events have since reopened and 2021 sales tax revenue is trending higher than that of 2019. We consider Branson's ESG risks relative to its coverage and liquidity and revenue volatility as in line with those of the sector as a whole.

Stable Outlook

Downside scenario

Should the city's financial performance fall out of balance, leading to material reductions in reserves, or if additional debt issuances elevate carrying charges to more than 50% of total governmental expenditures on a sustained basis with no management plan to address same, we could take negative rating action.

Upside scenario

If the city's local economy expanded and diversified, as evidenced by improved local effective buying incomes and a moderation of the debt burden, we could take positive rating action.

Credit Opinion

Budget control while revenue fell during the pandemic, with balanced-to-surplus results anticipated for the next two years

We note that we have made a number of adjustments to the city's operating data to better analyze typical operations and facilitate comparisons with peers. For instance, we have adjusted for one-time capital expenditures and treated recurring transfers into and out of the general fund as revenue and expenditures, respectively. In 2020, the city's general fund revenue consisted primarily of sales taxes (39%), charges for services (24%), property taxes (15%), and franchise taxes (6%).

Officials report that fiscal 2021 revenue is trending better than expected, with about a 42% increase in sales tax revenue year over year and 12% to 15% higher when compared with 2019. As a result, officials anticipate outperforming the break-even budget with a general fund surplus. The fiscal 2022 budget is balanced, and officials intend keep reserves above 30% of operating expenditures for the next two years by maintaining expenditures near 2020 levels. The city was allocated \$2.4 million in American Rescue Plan Act funds that it will receive in 2021 and 2022 and that will offer cushion as the city aims to sustain structural balance.

Given the city's reliance on economically sensitive revenue, officials took several steps to mitigate the impact of the pandemic and resulting recession on the city's finances during 2020. Assuming a conservative 45% decline in both sales tax and nontax revenue for the year, the city furloughed some part-time employees, instituted a hiring freeze, cut capital spending on vehicles and large projects, and reduced material and contractor expenses. Despite proactive measures and conservative budgeting, sales tax revenue outperformed budget and decreased 14%, while tourism tax decreased by 34%. As a result, the general fund deficit was just \$335,000 as opposed to the budgeted \$4.2 million drawdown. While the city experienced a sizable deficit across total governmental funds of \$6.9 million, or 12% of total expenditures, a large portion of this was a result of a single year of elevated debt service payments for its Branson

Landing tax increment financing revenue bonds, an increase of \$5.5 million.

The city is party to a privately placed lease obligation, but we do not believe that the obligation or its associated terms pose a risk to operations or liquidity. Given our expectations for budgetary performance, we expect reserves and liquidity to remain very strong.

Local economy rooted in entertainment and leisure with far-reaching tourism base

Branson is about 35 miles south of Springfield in Taney County, in the Ozark mountain range. The Branson-area economy revolves around recreation, tourism, trade, and services. Branson is a major music and entertainment capital, and attracts visitors from all over the country, in particular from Dallas and Chicago. The leisure and hospitality sector accounts for more than 30% of the county's employment base, which we view as concentrated and sensitive to economic conditions, as witnessed during the Great Recession and COVID-19 pandemic. The city's low-income level partly reflects its retiree population, which is drawn to the area's natural beauty and part-time employment opportunities. Officials report that the area continues to see development, particularly with new residences coming on line. Management further notes that outdoor attractions have remained highly popular.

The county unemployment rate, which tends to be highly cyclical given the area's reliance on the tourism industry, was 12.9%, which we view as elevated, in 2020. It peaked at 35.1% in April of 2020, as a result of closures during the pandemic, before declining to 6.3% by December 2020. Unemployment in 2021 moderated somewhat, peaking at 14.0% in February before declining to 4.2% in September. An annualized unemployment rate of less than 10% for calendar 2021 could strengthen our view of the local economy.

We anticipate that the local economy will see continued improvements in unemployment and assessed value but remain somewhat weak during national economic recovery as a result of reliance on the tourism and entertainment industry. For S&P Global Economics' latest U.S. economic forecast, see "Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off," published Sept. 23, 2021, on RatingsDirect.

Good management practices and policies

Highlights of the city's financial management policies and practices include the use of both historical data as well as consultations with a number of outside sources to develop budgetary forecasts, monthly reporting on budget-to-actual performance, maintenance of a detailed capital improvement plan and long-term financial plan, maintenance of a formal investment policy, a debt management policy that follows state statute, and adherence to a formal reserve policy to maintain at least 20% of expenditures on hand.

Very weak debt profile with elevated carrying charges, but rapid amortization and sufficient liquidity to combat fixed cost pressures

The city may seek to issue an additional \$7 million sales tax supported debt within the next two years that it intends to fund with proceeds of its public safety tax, which passed in 2018. Should the issuance increase the fixed cost carrying charge (debt service, pension, and other postemployment benefit, or OPEB, obligations) to more than 50% of total governmental fund expenditures and weaken our view of the city's ability to adjust operations, the rating could come under pressure.

We note that at fiscal year-end 2020, the city held restricted positions of \$14.1 million in its tax increment fund and

\$15.9 million in its tourism tax fund, which were restricted for debt service.

Pension and OPEB liabilities

We do not view the city's pension liabilities as an immediate source of credit pressure, given our opinion of strong plan funding status and the city's modest OPEB obligations.

The city participated in the following plans:

- Missouri Local Government Employees Retirement System (LAGERS), which is 93% funded (as of June 30, 2020), with a proportional share of the net pension liability equal to \$1.2 million
- A medical, prescription drug, hearing, vision, and dental insurance plan under which retirees pay 100% of their premium and which the city funds on a pay-as-you-go basis, with a liability of \$2.1 million (as of Sept. 30, 2020)

The city funds 100% of its actuarially determined contribution, and fiscal 2020 actual contributions exceeded our view of both static funding and minimal funding progress. We note that the LAGERS discount rate of 7.25% and level percent amortization method could lead to contribution volatility. Despite this, the plan's high funded status significantly mitigates the risks of costs increasing markedly. Although inflationary medical cost pressures will likely increase the city's OPEB contributions and implicit subsidy, we believe the resulting pressure on the city's finances will be minimal given that contributions represent such a small proportion of the city's operating budget.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Branson Key Credit Metrics				
	Most recent	Historical information		
		2020	2019	2018
Very weak economy				
Projected per capita EBI as % of U.S.	70			
Market value per capita (\$)		139,219		
Population		12,759	12,861	12,631
County unemployment rate(%)		12.9		
Market value (\$000s)		1,776,289	1,733,965	1,702,709
Ten largest taxpayers as % of taxable value	9.5			
Weak budgetary performance				
Operating fund result as % of expenditures		(1.7)	3.5	(2.0)
Total governmental funds result as % of expenditures		(11.6)	10.1	11.3
Very strong budgetary flexibility				
Available reserves as % of operating expenditures		35.6	29.7	25.2
Total available reserves (\$000s)		7,038	7,255	6,327
Very strong liquidity				
Total government cash as % of governmental funds expenditures		59	54	46
Total government cash as % of governmental funds debt service		120	135	114

Branson Key Credit Metrics (cont.)

	<u>Most recent</u>	<u>Historical information</u>		
		2020	2019	2018
Strong management				
Financial management assessment	Good			
Very weak debt and long-term liabilities				
Debt service as % of governmental funds expenditures		49.3	39.6	40.6
Net direct debt as % of governmental funds revenue	254			
Overall net debt as % of market value	11.9			
Direct debt 10-year amortization (%)	82			
Required pension contribution as % of governmental funds expenditures		3.0		
OPEB actual contribution as % of governmental funds expenditures		0.1		

Adequate institutional framework

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

Related Research

- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 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
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

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