

**Summary:**

## Rock Hill, Missouri; General Obligation

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### Credit Profile

US\$1.775 mil GO rfdg bnds ser 2010 due 03/01/2022

Long Term Rating

AA/Stable

New

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating, and stable outlook, to Rock Hill, Mo.'s series 2010 general obligation (GO) refunding bonds.

The rating reflects our view of the city's:

- Participation in, and access to, the St. Louis metropolitan economic base;
- Strong wealth and income indicators;
- Stable financial position, supported by very strong operating reserves; and
- Moderate overall debt burden with no additional debt plans.

Our view of the city's reliance on cyclical sales tax revenues for general fund operations limits these strengths.

The city's unlimited-tax GO pledge secures the series 2010 bonds. Officials plan to use bond proceeds to refund the city's series 2002 GO bonds outstanding scheduled to mature in 2013 and thereafter for interest cost savings.

Rock Hill encompasses approximately 1.1 square miles in St. Louis County, about 11 miles west of downtown St. Louis. The largely built-out city serves an estimated 4,600 residents, slightly lower than the total reported during the 2000 U.S. Census. Given its location between interstates 44 and 64, district residents benefit from easy access to employment opportunities in the greater St. Louis area. The city is also home to a variety of retail establishments, contributing to per capita retail sales that were 160% of state and national levels in 2009. Given this access, city unemployment has historically remained below average; at 8.4% through August 2010, unemployment was below the state's 9.4% rate and the nation's 9.2% rate.

After peaking at \$108 million in 2008, areawide economic weakness contributed to a 6% decline in the city's largely residential assessed valuation (AV) over the past two years to an estimated \$101 million in fiscal 2010. Estimated full market value totals \$447 million, or \$97,999 per capita, a figure we consider very strong. The city's property tax base is also very diverse with the 10 leading taxpayers accounting for 15% of AV. City income levels, measured through median household and per capita effective buying income, are, in our view, a strong 114% and 120%, respectively, of national levels.

Although the city's financial operations have been pressured recently, stemming from declining sales tax revenues, we believe officials have been able to implement sufficient changes, allowing the city to maintain stable operations and very strong general fund reserves. The city has added to its general fund reserve during each of the past four fiscal years; but according to officials, they attribute a portion of the \$700,000 fiscal 2009 surplus to one-time revenues stemming from a property sale. As measured on an accrual basis of accounting, the city closed fiscal 2010 on March 31 with a \$109,000 operating surplus that increased the unreserved general fund balance to \$2.5 million,

or, in our view, a very strong 63% of operating expenditures. For fiscal 2011, officials have assumed no change in sales tax revenues and budgeted to spend \$250,000 of reserves to fund a city pension fund fully.

Property taxes generated just 6% of general fund revenues in fiscal 2010 while sales tax revenues from the city's share of the 1% county sales tax and a quarter-cent local sales tax accounted for nearly 40%. The city also levies sales taxes for capital improvements (a half-cent); parks (a half-cent); and fire operations (a quarter-cent), all of which had related expenditures funded out of the city's general fund in fiscal 2010. Officials budgeted to establish a separate capital improvement fund in fiscal 2011 that will account for the 1.25% of nonoperating sales tax revenues and corresponding expenditures. After peaking at \$1.98 million in fiscal 2008, economic weakness contributed to a 7.7% overall sales tax decline in fiscal 2009, followed by generally stable sales tax revenues reported for fiscal 2010. The city's 8% utility tax charged on the gross receipts of electric, gas, water, telephone, and cable television companies typically accounts for an additional 20% of general fund revenues.

Standard & Poor's considers Rock Hill's management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. The city uses five years of historical information and external sources to project its subsequent-year budget. Management provides monthly reports on budgeted numbers compared to actual result financial information and investment holdings and earnings data to the board, and officials retain the flexibility to amend the budget as needed. The city is developing a capital improvement plan, and it is currently working off a previous financial plan scheduled for an update with the current budget cycle. Although no formal debt policy exists, the city maintains, and has historically adhered to, its general fund reserve policy, specifying the maintenance of reserves at no less than 25% of budgeted expenditures.

Following the refunding, the city will have just \$2 million of GO debt outstanding. Rock Hill's overall debt burden, which includes overlapping debt and the city's \$12 million of tax increment revenue bonds, is, in our view, a moderate \$4,248 per capita, or 4.3% of estimated market value. Debt service carrying charges for the city's debt, including tax increment revenue bonds, have been elevated: They were 24% of fiscal 2010 governmental expenditures less capital outlays. Amortization on the city's GO debt is above average with city officials planning to retire 100% of debt service by 2022. City officials have not currently formalized any additional debt plans.

## Outlook

The stable outlook reflects Standard & Poor's expectation that despite its reliance on sales tax revenues, the city will likely continue to make the budgetary adjustments needed to balance its operating budget while maintaining strong reserves in compliance with the general fund reserve policy. Participation in the greater St. Louis area economy provides further rating stability.

## Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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