S&P Global Ratings

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Summary:

Bixby, Oklahoma; General Obligation

Primary Credit Analyst:
Alex Louie, Centennial 303-721-4559; alex.louie@spglobal.com

Secondary Contact:
Joshua Travis, FARMERS BRANCH 972-367-3340; joshua.travis@spglobal.com

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Summary:

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Credit Profile		
US$4.7 mil go bnds ser 2020 dtd 12/01/2020 due 12/01/2028		
Long Term Rating	AA+/Stable	New
Bixby GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Bixby, Okla.'s $4.7 million series 2020 general obligation (GO) bonds. At the same time, we affirmed our 'AA+' long-term rating on the city's existing GO debt. The outlook is stable.

The bonds are secured by an unlimited ad valorem tax levied on all eligible property within the city's boundaries. This issuance uses the remaining bond authorization from a 2016 election. Management plans on using the proceeds for public safety and street improvements.

Credit overview

Located just south of Tulsa, Bixby features a strong and growing residential economy. Officials state that COVID-19 has not significantly affected sales tax revenues, or ongoing development at this time. Although management does not conduct formalized long-term capital planning or long-term financial planning or have a reserve target, the city has maintained balanced operations, generating surpluses for five-consecutive years. As a result, the city has very strong budgetary flexibility, in our view, of nearly 60% of expenditures with no future plans to spend down reserves. Debt service carrying charges are high at 20.9%, but this is offset by a rapid amortization schedule. Due to the uncertainty presented by the ongoing global pandemic, our outlook is focused on a shorter outlook period of six-to-12 months. For our recent U.S. economic update, see "Economic Research: The U.S. Economy Reboots, With Obstacles Ahead, " (published Sept. 24, 2020, on RatingsDirect).

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

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology and the ability to consistently maintain balanced operations;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 135% of operating expenditures;
- Very strong liquidity, with total government available cash at 2.2x total governmental fund expenditures and 10.7x governmental debt service, and access to external liquidity that we consider strong;

- Adequate debt and contingent liability profile, with debt service carrying charges at 20.9% of expenditures and net direct debt that is 140.7% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 81.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, governance factors

The rating incorporates our view of the health and safety risks posed by the COVID-19 pandemic, which we consider a social risk factor. Although the scope of economic and financial challenges posed by the pandemic remains unknown, we believe a prolonged disruption could weaken the city's local economy and potentially affect state and local revenues. However, the COVID-19 pandemic is not affecting the city more than other sector standards. We also analyzed its governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard. We consider Bixby's environmental risks slightly higher than the sector standard, given its exposure to violent weather such as hail storms and tornados. In addition to general fund reserves, the city does maintain a disaster recovery fund, with a current balance of $3 million.

Stable Outlook

Downside scenario

We could lower the rating if city operations become imbalanced, resulting in significant financial deterioration such as a marked reduction in reserves.

Upside scenario

Although unlikely, an improvement in the city's debt burden, combined with the formalization of key policies/practices and continued expansion of the local economy, could result in positive rating action.

Credit Opinion

Strong economy

We consider Bixby's economy strong. The city, with an estimated population of 26,845, is located in Tulsa and Wagoner counties in the Tulsa MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 106.3% of the national level and per capita market value of $101,983. Overall, the city's market value grew by 4.9% over the past year to $2.7 billion in 2021. The weight-averaged unemployment rate of the counties was 3.2% in 2019.

Approximately 20 miles south of Tulsa, Bixby is an affluent suburb within the Tulsa MSA. The strong housing demand has resulted in consistent tax base growth, largely due to new residential construction. Officials report that approximately 400 new homes are being built annually, and that several new subdivisions are in various stages of completion. In addition, the city notes some retail and service sector growth, largely along Memorial Drive (a major north-south artery within the city). Several commercial properties in a mixed-use development called the Mill have received city approval to move forward in the past year, and management reports that COVID-19 has not delayed any of the decisions to build at this time. Officials also stated plans to extend a connection between the Arkansas River and trails in downtown Bixby. Given the pace of expansion, officials expect assessed value growth to continue in line with recent growth, increasing approximately 5% annually in the near term.

Management reports that COVID-19 initially affected two hotels in the city, but that grocery and hardware stores performed well. Given that the city is primarily a bedroom community, many residents worked from home and kept their spending in the city. Officials did report that a restaurant closed and a movie theatre is struggling, but aside from these businesses, stated that COVID-19 has not significantly slowed down economic activity. Sales tax receipts are slightly higher year to date, with a significant portion coming from online sales tax.

Strong management

We view the city's management as strong, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas. In addition, our assessment of management indicates the city's consistent maintenance of balanced operations. Over the past three years, general fund operating results have ranged from 1.9%-14.0%.

Revenue and expenditure are projected using two years of historical data, although city staff does examine 10 years of historical data on a more informal basis. Budget-to-actual comparisons and investment updates are presented to elected officials quarterly, and the budget is amended as needed. These reports are divided into various funds, and are concise one-page summaries. The city has not implemented a long-range capital or financial plan and has not adopted policies related to debt management and reserves or liquidity.

Strong budgetary performance

Bixby's budgetary performance is strong, in our opinion. The city had operating surpluses of 14.0% of expenditures in the general fund and of 22.7% across all governmental funds in fiscal 2019.

Our assessment of the city's 2019 budgetary performance is adjusted to exclude capital expenditures funded with bond proceeds. The city has historically exhibited strong financial performance, with operating surpluses in each of the past six audited fiscal years. Officials attribute the strong performance to conservative budgeting and growing property tax and sales tax bases.

For fiscal 2019, the city's adopted budget reflected an anticipated $500,000 general fund deficit, but typical of the city, at fiscal year end, the city reported a $1.2 million surplus, due in large part to an 8.63% increase in sales tax revenue year over year.

For fiscal 2020, the city budgeted for a $623,000 deficit, but expects to post another $1.4 million surplus budget due to conservative budget assumptions and stable sales tax collections. Sales taxes comprise a large portion of the city's revenues, which could create future volatility given the COVID-19 pandemic, but management reports that sales tax revenues remain stable. In fiscal 2021, the city only budgeted a 3.0% increase in sales tax revenues, and through the first four months of fiscal 2021, the city is 3.4% ahead of fiscal 2020 collections.

Management has not expressed any desire to lower reserves, and stated it wants to continue to raise reserves in the near term in order to protect the city against future contingencies. If economic conditions continue in Bixby, we expect the city to continue to maintain strong budgetary performance.

Very strong budgetary flexibility

Bixby's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 71.7% of operating expenditures, or $6.9 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The city has maintained available general fund reserves above 50% of operating expenditures for at least the past six audited fiscal years. Given an expected surplus in fiscal 2020, we believe that reserves could soon increase above 75%. At this time, the city has no plans to spend down reserves and it currently plans to increase reserves to protect the city against future contingencies. In addition, the city has $3 million in reserves in a disaster recovery fund.

Very strong liquidity

In our opinion, Bixby's liquidity is very strong, with total government available cash at 2.2x total governmental fund expenditures and 10.7x governmental debt service in 2019. In our view, the city has strong access to external liquidity if necessary.

Our belief that the city has strong access to external liquidity is based on its historical issuance of GO debt. The city's investments are conservative and highly liquid. Therefore, and with the city's very strong budgetary performance, we expect liquidity to remain very strong.

The Bixby Public Works Authority, a public trust with the city of Bixby as a beneficiary, has one privately placed sales tax revenue note, with $12.7 million principal outstanding. The city, through a security agreement that must be renewed annually, remits to the authority monthly the revenue collected from a 0.3% sales tax and 0.15% sales tax for the payment of debt service. While the note contains an event of default for breach of covenant, which we view as permissive, and the principal for all notes outstanding can be accelerated upon an event of default, we do not view the note as a contingent liquidity risk for the city. This is because the city must renew the security agreement annually and therefore is responsible only for remitting one year's worth of sales tax revenue at a time. Furthermore, the city's available cash and cash equivalents, as of June 30, 2019, provide 4x coverage on the principal outstanding, which is far more than debt service due in any one year.

Also, in December 2019, Bixby entered into a bank loan agreement, with a total principal of $451,000. The loan is intended for the city to make improvements to a property across from city hall, which will be used to improve administrative offices. There is a cross collateralization provision in the documents related to a mortgage between the city and bank for the land and buildings that the city plans on using the proceeds of the loan to update. However, given the small size of the loan, in comparison to the city's fund balances and assets, we do not consider this a liquidity risk at this time.

Adequate debt and contingent liability profile

In our view, Bixby's debt and contingent liability profile is adequate. Total governmental fund debt service is 20.9% of total governmental fund expenditures, and net direct debt is 140.7% of total governmental fund revenue. Overall net debt is low at 2.0% of market value, and approximately 81.5% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Officials state they could approach voters for additional bond authorization in the summer 2021 and expect to ask voters for $27 million. If the authorization passes, management plans on issuing $5 million-$6 million in debt in both 2021 and 2022. Given the rapid amortization and time frame for future issuance, we do not expect our view of the city's debt profile to change as a result of the city's additional debt plans.

Bixby's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.2% of total governmental fund expenditures in 2019. The city made its full annual required pension contribution in 2019.

We do not consider the city's pension plans a credit risk at this time given the total size of the liabilities, and the funded ratios of the plans. However, we do think that contributions for the Oklahoma Firefighters Pension and Retirement System (OFPRS) could increase.

The city participates in the following plans:

- OFPRS, funded at 72.9% with a net proportional liability of $6 million;
- Oklahoma Public Employees Retirement Plan funded at 98.6%, with a net proportional liability of $311,000;
- Oklahoma Police Pension and Retirement Plan funded at 102.5%, with a net proportional asset of $242,000;
- Oklahoma Municipal Retirement Fund, an agent multiple-employer defined contribution plan; and
- Supplemental Health Insurance Program funded at 112%, with a net asset of $62,000.

The funded ratio for OFPRS is an increase from the previous year when it was 70%. We note that although the city has made its required contribution each year, the required contributions are determined by state statute and have fallen short of the actuarial determined contribution in each of the past 10 fiscal years. Currently the city is making less than our actual minimum funding progress calculation. Therefore, and given the low funded ratio for OFPRS, we expect contributions to increase over the medium term.

The Oklahoma Police Pension and Public Employees retirement plan, and OPEB are all well funded, and we do not consider these credit risks.

Strong institutional framework

The institutional framework score for Oklahoma cities and towns with general fund revenues greater than $25,000 or population greater than 2,500 is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2019 Update Of Institutional Framework For U.S. Local Governments

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