

RATING ACTION COMMENTARY

Fitch Affirms Columbia, MO's IDR at 'AA+'; Outlook to Positive on Criteria Change

Thu 18 Jul, 2024 - 2:17 PM ET

Fitch Ratings - Chicago - 18 Jul 2024: Fitch Ratings has affirmed the following Columbia (MO) ratings:

--Issuer Default Rating (IDR) at 'AA+';

--Special obligation bonds series 2015 at 'AA'.

The Rating Outlook has been revised to Positive from Stable. The ratings have been removed from Under Criteria Observation.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Columbia (MO) [General Government]	LT IDR AA+ Rating Outlook Positive Affirmed	AA+ Rating Outlook Stable
Columbia (MO) /City Appropriation/1 LT	LT AA Rating Outlook Positive Affirmed	AA Rating Outlook Stable

Columbia (MO) /Issuer Default	LT	AA+ Rating Outlook Positive	AA+ Rating Outlook
Rating - General Government/1 LT	Affirmed		Stable

[VIEW ADDITIONAL RATING DETAILS](#)

The IDR affirmation reflects the city's 'aaa' financial resilience assessment given its 'High Midrange' budgetary flexibility assessment and Fitch's expectations that reserves will be maintained at or above 10% of spending and transfers out. The rating also incorporates the city's 'Midrange' long-term liability composite assessment balanced against a 'Strong' population trend and demographic and economic level metrics.

The one-notch distinction between the IDR and the appropriation backed special obligation bond 'AA' rating reflects Fitch's view that the bonds are subject to a slightly higher degree of optionality associated with payment of appropriation debt.

The Positive Outlook reflects the implementation of Fitch's new local government rating criteria. Fitch expects the long-term liabilities, including associated carrying costs, will remain close to or trend below current levels and that demographic and economic metrics will remain strong, which could support upward movement in the ratings.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A sustained material increase in debt or net pension liabilities and increased carrying costs, absent a commensurate increase in personal income or governmental resources, resulting in increased budget pressures;

--A decline in unrestricted general fund balance sustained below 10% of spending, leading to a lower assessment of financial resilience;

--Weakened economic and demographic trend metrics such as rising unemployment.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Maintenance or improvement of underlying demographic and economic metrics in conjunction with expected improvement in long term liabilities and carrying costs.

SECURITY

The bonds are a special obligation of the city, payable from the city's general revenues subject to annual appropriation.

FITCH'S LOCAL GOVERNMENT RATING MODEL

The Local Government Rating Model generates Model Implied Ratings which communicate the issuer's credit quality relative to Fitch's local government rating portfolio (the Model Implied Ratings will be the IDR except in certain circumstances explained in the applicable criteria). The Model Implied Ratings is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher ('AAA'), 9.0 ('AA+'), 8.0 ('AA'), and so forth down to 1.0 ('BBB-' and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile, and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

RATINGS HEADROOM & POSITIONING

Columbia Model Implied Rating: 'AAA' (Numerical Value: 10.17)

-- Metric Profile: 'AAA' (Numerical Value: 10.17)

-- Net Additional Analytical Factor Notching: 0.0

Columbia's Model Implied Rating is 'AAA'. The associated numerical value of 10.17 is at the lower end of the range for its current 'AAA' rating.

KEY RATING DRIVERS

FINANCIAL PROFILE

Financial Resilience - 'aaa'

Columbia's financial resilience is driven by the combination of its 'High' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'High Midrange' budgetary flexibility assessment.

-- Revenue control assessment: High

- Expenditure control assessment: Midrange
- Budgetary flexibility assessment: High Midrange
- Minimum fund balance for current financial resilience assessment: $\geq 10.0\%$
- Current year fund balance to expenditure ratio: 51.4% (2023)
- Five-year low fund balance to expenditure ratio: 45.2% (2023)

Revenue Volatility - 'Strong'

Columbia's weakest historic three-year revenue performance is neutral to the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

- Lowest three-year revenue performance (based on revenues dating back to 2005): 1.5% decrease for the three-year period ending fiscal 2013
- Median issuer decline: -4.6% (2023)

DEMOGRAPHIC AND ECONOMIC STRENGTH

Population Trend - 'Strong'

Based on the median of 10-year annual percentage change in population, Columbia's population trend is assessed as 'Strong'.

Population trend: 1.2% 2022 median of 10-year annual percentage change in population (62nd percentile)

Unemployment, Educational Attainment and MHI Level - 'Strong'

The overall strength of Columbia's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2023 are

assessed as 'Strong' on a composite basis, performing at the 71st percentile of Fitch's local government rating portfolio. This is due to very high education attainment levels and very low unemployment rate offsetting low median-issuer indexed adjusted MHI.

-- Unemployment rate as a percentage of national rate: 72.2% 2023 (86th percentile), relative to the national rate of 3.6%

-- Percent of population with a bachelor's degree or higher: 55.3% (2022) (93rd percentile)

-- MHI as a percent of the portfolio median: 90.7% (2022) (35th percentile)

Economic Concentration and Population Size - 'Strongest'

Columbia's population in 2022 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 128,392 (2022) (above the 15th percentile)

-- Economic concentration: 49.8% Analyst Input (above the 15th percentile) (vs. 45.8% 2023 Actual)

LONG TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Midrange'

Columbia's long-term liability metrics range from 'weak' to 'strong' across each of the three dimensions: liabilities to personal income, liabilities to governmental revenue, and carrying costs to governmental expenditures. The long-term liability composite metric in 2023 is at the 54th percentile, roughly in line with Fitch's local government rating portfolio.

-- Liabilities to personal income: 3.3% Analyst Input (71st percentile) (vs. 3.4% 2023 Actual)

-- Liabilities to governmental revenue: 161.5% Analyst Input (59th percentile) (vs. 162.7% 2023 Actual)

-- Carrying costs to governmental expenditures: 16.5% (2023) (37th percentile)

Analyst Inputs to the Model

Analyst adjusted direct debt to net out 2024 principal.

PROFILE

The city of Columbia is located in Boone County in the central portion of Missouri along Interstate 70. The population was 128,392 as of 2022, an increase of 13% over the previous decade. Population growth has contributed to sales tax revenue growth for the city. The city has historically had unemployment rates below the state and national levels.

Sources of Information

In addition to sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from DRIVER by Solve.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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APPLICABLE CRITERIA

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 (1)

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Columbia (MO)

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