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Summary:

Johnston, Iowa; General Obligation

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Credit Profile		
US$5.89 mil taxable GO urban renewal bnds ser 2021C due 06/01/2031		
Long Term Rating	AA+/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA+' rating to Johnston, Iowa's anticipated $5.89 million series 2021C taxable general obligation (GO) urban renewal bonds. The outlook is stable.

The city's unlimited ad valorem tax GO pledge secures the bonds. Officials intend to use series 2021C bond proceeds for essential corporate urban renewal purposes and current refund the city's series 2018E taxable GO capital loan notes.

Credit overview

We view Johnston as a strong and stable issuer. Proactive management has a long record of producing mostly balanced budgets and maintaining very strong reserves despite recent planned drawdowns to align fund balances with its formal fund-balance policy. In addition, unlike many of its peers, the city has additional revenue-raising flexibility. Johnston is a desirable suburb in the Des Moines metropolitan statistical area (MSA) with a very strong economy with well above-average income and a sizable, growing property tax base. Its very weak debt profile is a clear negative credit factor, in our view, that could pressure the rating. Debt service carrying charges are approaching high levels; if additional debt were to weaken its overall credit profile materially, we could lower the rating.

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

- Very strong economy in the Des Moines MSA;
- Maintenance of very strong reserves; and
- Good financial-management policies and practices under our Financial Management Assessment (FMA) methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Environmental, social, and governance factors

In our view, the city's social and environmental risks are in line with those of the sector. Because of our view of Johnston's very strong financial management, we consider governance risks below the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the city's debt profile were to weaken because of its substantial borrowing plans, which could lead to materially higher debt service carrying charges and slower amortization and become a source of fiscal stress, weakening our view of management, or if budgetary performance were to decrease to levels we view as weak or very weak, causing budgetary flexibility to deteriorate materially.

Upside scenario

Due to the city's very weak debt profile, we do not expect to raise the rating; however, we could do so if economic metrics were to improve to levels we consider commensurate with those of higher-rated peers, specifically if income and market value per capita were to increase significantly.

Credit Opinion

Very strong economy with participation in the broad, diverse Des Moines MSA

Johnston is in Polk County in central Iowa, approximately four miles northwest of the state economic center and capital of Des Moines. Due to Johnston's location, residents have direct access to employment in Des Moines and throughout the MSA. Leading Johnston employers include:

- John Deere (3,500 employees),
- Corteva Agriscience (2,500), and
- Johnston School District (1,034).

Johnston is also home to Camp Dodge, where the Iowa National Guard employs at least 800. The city is not aware of any closures or departures of leading taxpayers or employers due to the COVID-19 pandemic.

The tax base, including the tax-increment financing district, is 77% residential with an important commercial component of 20%. Leading taxpayers include:

- Deere Credit Services,
- Pioneer Hi-Bred, and
- Mid-American Energy.

The city's 10 leading taxpayers represent 15.08% of taxable valuation, which is diverse. We expect Johnston's local economy will likely remain very strong and experience continued growth during the next few years.

Maintenance of very strong reserves with additional levy flexibility

In analyzing budgetary performance, we have adjusted audited data to account for recurring transfers and the spending of bond proceeds. For audited fiscal 2020, Johnston posted a $1.9 million deficit, or 13.4% of expenditures, generally consistent with budgeted expectations. Officials structured the fiscal year 2020 and 2021 budgets with a use of reserves to reduce general fund balance to levels closer to its reserve policy of 25% of expenditures. On Jan. 1, 2020, the city began collecting revenue derived from a recent electorate-approved local-option sales tax, which generated approximately $1 million in the final six months of fiscal 2020. Management indicates COVID-19 had very limited effects on the city's finances. Property taxes generated 72% of general fund revenue and charges for services accounted for 13% in fiscal 2020.

Officials structured the fiscal 2021 budget with a $408,000 deficit, or 2.7% of expenditures, as part of the ongoing plan to reduce reserves closer to the 25% fund-balance policy. The city increased its general fund levy to raise revenue to fund the hiring of public safety personnel, and it is forecasting approximately $3.3 million in revenue from the first full fiscal year of its local-option sales tax, which is much higher than originally projected. Management estimates a $1.1 million general fund surplus for fiscal 2021.

For fiscal 2022, Johnston budgeted for a general fund deficit of $579,000, which is, again, a strategic drawdown to align with its fund-balance policy. We note the city expects to receive approximately $3.1 million in federal stimulus due to the American Rescue Plan Act of 2021, which it will likely use for infrastructure. Due to strategic drawdowns, we expect the city will likely maintain, at least, adequate budgetary performance during the next few fiscal years.

Johnston, unlike most Iowa municipalities, is not levying at its maximum rates. The city is currently under its 8.1 mill general fund levy, which is unusual for Iowa municipalities; it has an estimated $4 million of additional flexibility in fiscal 2022. The city's formal fund policy calls for maintaining, at least, 25% of expenditures in reserves; it is seeking to reduce available fund balance to this level. Despite its use of reserves in fiscal 2020 and expected drawdown in fiscal 2022, we expect budgetary flexibility will likely remain very strong.

At fiscal year-end 2020, Johnston had more than $24 million in liquidity, excluding unspent bond proceeds.

Strong financial management with good policies and practices

Highlights include management's:

- Use of three years of historical information when constructing the budget,
- Monthly budget-to-actual reports to the city council,
- Maintenance of a council-adopted five-year capital improvement plan (CIP) Johnston updates annually,
- Formal investment management policy where the council reviews holdings in monthly treasury investment reports, and
- Formal fund balance policy of maintaining 25% of expenditures that the city will continue to exceed despite its planned use of reserves.

Johnston also has a formal debt-management policy that states GO debt should not exceed 75% of the statutory limit; however, this excludes electorate-authorized debt and debt issued because of the council's strategic priorities. It maintains two-year financial projections.

Very weak debt profile with high carrying charges that limit budget flexibility

Johnston issues debt annually as part of its CIP for various capital and infrastructure needs.

We currently consider debt service carrying charges elevated and Johnston's main credit weakness; should this level approach 45%-50%, we could lower the rating. Adjusted carrying charges, as of the fiscal 2020 audit, are high at 40%, limiting flexibility, in our view. However, we also note tax-increment financing revenue supports various debt issuances, which, in turn, keeps the tax rate lower than it would be.

Participation in a well-funded state pension plan with manageable costs

Johnston's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 2.8% of total governmental fund expenditures in fiscal 2020: 2.7% represented required pension contributions and 0.1% represented OPEB payments. The city made its full annual required pension contribution in fiscal 2020.

Pension and OPEB highlights include:

Johnston's pension and OPEB costs are modest as a share of total spending and are not likely to accelerate significantly during the next few fiscal years, especially due to the pension plan's relatively strong funding.

Although the city funds OPEBs on a pay-as-you-go basis, exposing it to potential cost acceleration risk, we expect medium-term costs will likely remain only a small share of total spending and, therefore, not a significant budgetary pressure.

The city participates in:

- Iowa Public Employees' Retirement System (IPERS)--a multiple-employer, defined-benefit pension plan that uses reasonable assumptions--which was 83% funded, as of June 30, 2020, with a proportionate share of the plan's net pension liability of $3.8 million; and
- Johnston's implicit rate subsidy from retirees staying on its plan while paying active premium rates, which was 0% funded, with a liability of $1.2 million.

Johnston's fiscal 2020 actuarially determined IPERS contribution fell slightly short of our minimum and static funding progress metrics. We generally expect progress toward full funding to be slower due to IPERS' level-percent amortization over a closed period of 26 years. Furthermore, we posit IPERS' 7% discount could lead to contribution volatility. We expect contributions will likely remain relatively stable; due to IPERS' strong funding and contribution practices, we expect contributions will likely remain affordable.

Johnston, IA -- Key Credit Metrics

	Most recent	Historical information		
		2020	2019	2018
Very strong economy				
Projected per capita EBI % of U.S.	134.5			
Market value per capita ($)	124,358			
Population	24,064	23,423	23,224	22,365
County unemployment rate (%)		6.0		
Market value ($000)		2,912,843	2,864,611	2,641,908
Top 10 taxpayers % of taxable value		15.1		
Adequate budgetary performance				
Operating fund result % of expenditures		(13.4)	9.3	2.2
Total governmental fund result % of expenditures		5.7	6.2	3.3

Johnston, IA -- Key Credit Metrics (cont.)				
	Most recent	Historical information		
		2020	2019	2018
Very strong budgetary flexibility				
Available reserves % of operating expenditures		34.8	46.5	42.5
Total available reserves ($000)		5,129	6,355	5,701
Very strong liquidity				
Total government cash % of governmental fund expenditures		74.7	64.1	100.2
Total government cash % of governmental fund debt service		186.4	235.5	307.0
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		40.1	27.2	32.6
Net direct debt % of governmental fund revenue	407.0			
Overall net debt % of market value	4.9			
Direct debt 10-year amortization (%)	58.0			
Required pension contribution % of governmental fund expenditures		2.7		
OPEB actual contribution % of governmental fund expenditures		0.1		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.