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Ratings

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Summary:

Camanche, Iowa; General Obligation

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Credit Profile		
US$2.25 mil GO corp purp bnds ser 2022 due 06/01/2042		
Long Term Rating	A+/Stable	New

Rating Action

S&P Global Ratings assigned its 'A+' long-term rating to Camanche, Iowa's anticipated $2.25 million series 2022 general obligation (GO) corporate purpose bonds. The outlook is stable.

The bonds are secured by the city's full faith and credit and an agreement to levy ad valorem property taxes without limit as to rate or amount. Bond proceeds will pay the entire cost for street upgrades to a road accessing a new housing subdivision. Officials have no plans for additional near-term debt.

Credit overview

The city of Camanche is in eastern Iowa in Clinton County on the Mississippi River. Camanche's economy is stable despite a setback when TMK Ipsco, which at one point employed 300 people and was one of its larger employers, closed its pipe manufacturing plant in 2019. Officials do not experience any tax appeals or valuation loss following the cessation of operations at the TMK Ipsco plant. In the meantime, the city's budget remains balanced, and officials currently have no plans to draw down on general fund cash reserves. Cash reserves remained strong in 2019 and 2020 despite unexpected spending in caused by a flood and a derecho. Because the city has a fairly small budget, elevated debt costs could limit flexibility, but its other long-term liabilities (pensions and other postemployment benefits or OPEBs) are manageable, so we expect rating stability during the outlook period.

The rating reflects the following factors:

- The city's location on the Mississippi River, with access to jobs in nearby Clinton;
- Standard management policies and practices and a strong institutional framework score;
- Conservative budget practices, exemplified by a plan for at least breakeven results for the upcoming 2023 budget year and strong cash-basis reserves; and
- Elevated debt service carrying charges, counterbalanced by rapid debt amortization and limited future debt plans.

Environmental, social, and governance

We note that the city's location along the Mississippi River makes it vulnerable to flooding, which we consider an environmental risk. The city's most recent flood event occurred in 2019, causing $345,000 in damage to streets and parking lots as well as sewer collapses and sinkholes. While some of the broader economic area is protected by locks and dams in nearby Clinton, which prevented prolonged or major disruption of the local economy, we believe the city remains vulnerable to similar, future events. The city also sustained damage from a derecho, or an episodic wind event, in 2020. A potential emerging social risk is the area's declining population. Clinton County's population decline is 3.7%. While the city's population has recently remained fairly steady, further declines could weaken the city's economic development prospects. Governance risk factors, within the context of our criteria, are credit neutral.

Stable Outlook

Downside scenario

We could lower the rating if additional debt issuance was to result in debt service carrying charges increasing to exceptionally high levels. We could also lower the rating if the city's budgetary flexibility were to decline due to weakened performance or one-time expenditures.

Upside scenario

If there were a broadening of the economic base, with improvement in the city's income and wealth metrics and all other credit factors remaining equal, we could raise the rating.

Credit Opinion

Weak economy challenged by a recent employment loss, but the economy will benefit from new development

Overall, the local economy, which is centered around several smaller manufacturers and logistics companies, is stable. Since the loss of TMK Ipsco, Camanche's notable gain is Naeve Family Beef, which is opening a new beef processing plant and recently hired 50 people. The city is establishing a tax increment district this summer and developer interest is already evident, with proposals for new local businesses coming forward. Officials anticipate a large uptick in valuations for tax year 2022 due to updated city-wide assessments of property values. The change could cause a significant year-over-year increase in property tax revenue, but officials plan to adjust their rates to allow for a less acute increase in revenue.

Standard financial policies and practices

Budget assumptions rely primarily on two years of historical data and information from vendors and other external parties. Monthly cash balance and transactions lists are shared with the board and the budget can be amended at any time. The city maintains a 10-year capital plan updated periodically with analysis on bonding and revenues needed to support debt service. It has a formal investment policy, which largely mirrors state guidelines. The board receives a monthly treasurer's report showing holdings, which currently consist only of cash held at its local bank. The city does not have a debt policy or a formal or informal reserve policy or target, nor does it produce long-term financial forecasts.

Management has cyber mitigation measures in place and has not had any issues with data breaches.

Strong financial performance, with FEMA reimbursements and federal stimulus funds supporting strong cash reserves and very strong liquidity

Overall, city operations remain structurally balanced, despite somewhat mixed historic results attributed to flooding in 2019 and damages from a derecho in 2020, which caused upticks in spending during those years. Officials received roughly $300,000 in FEMA reimbursement funds in fiscal 2021. Its new growth and development prompted the city to hire new staff to handle code enforcement and building inspections. The city was allocated an additional $83,000 from FEMA and the Department of Homeland Security as well as $652,000 American Rescue Plan Act (ARPA) funds, which they plan to use on storm water system improvements and water system studies. Officials budgeted a $300,000 surplus for fiscal 2022, in part from an uptick in local grants and reimbursements and are on track to achieve that result as the fiscal year draws to a close. Officials plan to adopt a general fund budget calling for a $36,000 use of reserves. Property taxes make up nearly half of total general fund revenue. Local option taxes account for 25% of total revenue. Given that the city's property tax base is growing and stable, and that building construction and other activities are continuing, we anticipate that general fund revenue will remain fairly predictable and that the city's performance will remain strong for the current and following year. We also expect budgetary flexibility to remain strong and liquidity to remain very strong. Reserves have fluctuated in recent years, and the city does not have a discrete general fund balance policy, but with expected positive results for 2022 and essentially breakeven 2023 budget suggests reserves should stay at strong levels.

Camanche has demonstrated strong access to the capital markets and has a history of issuing GO debt. Camanche has $1.3 million of outstanding bank loans (series 2018, 2020A, 2020B, and 2022) with various area banks. The agreements do not include accelerations in the event of a default, and thus in our view do not pose a liquidity risk.

Manageable debt and contingent liability profile with limited additional debt plans

The city has $6.7 million in direct debt including the series 2022 bonds. All debt is in the form of GO bonds and notes. Overall fixed charges, consisting of debt service and pension and OPEB contributions, are elevated, but at least partly offset by rapid amortization, with most debt repaid by 2035.

The city may issue $200,000 in debt to fund a recreation facility project but only if grant funding is unavailable.

Pensions and other postemployment benefits (OPEBs) are manageable

Pension and OPEB highlights:

The city's pension and OPEB costs are manageable and are not likely to accelerate significantly in the medium term, especially given the pension plan's strong funded status.

Camanche participates in the Iowa Public Employees' Retirement System (IPERS) and the Municipal Fire and Police Retirement System of Iowa (MFPRSI), both multiple-employer, defined-benefit pension plans that use reasonable assumptions.

The city closed its OPEB plan in 2015 to new hires and funds the plan on a pay-as-you-go basis, exposing it to potential cost acceleration, but we expect that medium-term costs will remain only a small share of total spending and, therefore, not a significant budgetary pressure.

The city participates in the following pension and OPEB plans as of a June 30, 2021, measurement date:

- IPERS: fully funded with a $25,000 pension asset;
- MFPRSI: $568,000 net pension liability; and
- Single employer OPEB, consisting of a closed plan that covered medical insurance premiums and an implicit rate

subsidy arising from retirees hired after a certain date who stay on the city's plan while paying active premium rates. The city has not calculated the liability associated with its OPEB plan.

The city's actuarially determined IPERS and MFPRSI contributions to both plans exceeded both full static funding and minimum funding progress metrics in 2021. In general, we expect potential contribution volatility since the discount rates on the plans above our 6% benchmark, as well as from OPEB benefits. However, we view it as manageable, given funding levels in the pension plan and the limited benefits offered under OPEB.

Strong institutional framework

The institutional framework score for Iowa cities with a population greater than 2,000 is strong.

Camanche, Iowa: Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Weak economy				
Projected per capita EBI % of U.S.	82			
Market value per capita ($)	83,842	78,155	74,663	72,595
Population			4,368	4,375
County unemployment rate(%)			6.7	
Market value ($000)	366,223	341,382	326,127	317,602
Ten largest taxpayers % of taxable value	18.5			
Strong budgetary performance				
Operating fund result % of expenditures		2.3	(11.6)	(4.3)
Total governmental fund result % of expenditures		8.5	(8.8)	(12.8)
Strong budgetary flexibility				
Available reserves % of operating expenditures		37.0	31.1	49.7
Total available reserves ($000)		1,107	1,029	1,395
Very strong liquidity				
Total government cash % of governmental fund expenditures		33	40	47
Total government cash % of governmental fund debt service		222	310	344
Adequate management				
Financial Management Assessment	Standard			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		14.8	12.8	13.7
Net direct debt % of governmental fund revenue	119			
Overall net debt % of market value	9.2			
Direct debt 10-year amortization (%)	79			
Required pension contribution % of governmental fund expenditures		6.9		
OPEB actual contribution % of governmental fund expenditures		5.1		
Strong institutional framework				

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

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2021 Update Of Institutional Framework For U.S. Local Governments