S&P Global
Ratings

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Summary:

Mississippi Development Bank Biloxi; General Obligation

Primary Credit Analyst:
Katelyn A Kerley, Centennial + 1 (303) 721 4683; katelyn.Kerley@spglobal.com

Secondary Contact:
Alex Louie, Centennial 303-721-4559; alex.louie@spglobal.com

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Credit Profile		
US$14.0 mil spl oblig bnds (Biloxi) ser 2019 due 11/01/2039		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to the Mississippi Development Bank's series 2019 special obligation bonds, issued on behalf of the City of Biloxi. At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating on the city's outstanding general obligation (GO) debt and limited-tax port bonds. The outlook is stable.

Given the city's location on the Gulf Coast with white sand beaches and several casinos, the local economy relies heavily on tourism activity (although the presence of Keesler Air Force Base acts as a stabilizing institution). Over the past several years, the city has seen significant swings in revenue and expenditures stemming from a roughly $340 million capital campaign under which Federal Emergency Management Agency (FEMA) funds are being used to repair damage caused by Hurricane Katrina in 2005. Despite the protracted capital campaign, the city has been able to maintain stable operations and strong reserves. While we anticipate no downward rating pressure at this time, we believe that the credit is comparatively more vulnerable to an economic downturn given that its base is reliant on the tourism and gaming industry, which would likely suffer more acutely in the event of a recession, or as a result of a significant weather event, which could affect both property values and the tourism industry.

The 'AA-' rating reflects our view of the city's:

- Adequate economy, with a local stabilizing institutional influence;
- Adequate management, with standard financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with balanced operating results in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2017;
- Strong budgetary flexibility, with an available fund balance in fiscal 2017 of 12.4% of operating expenditures;
- Very strong liquidity, with total government available cash at 60.6% of total governmental fund expenditures and 6.1x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 9.9% of expenditures and net direct debt that is 131.8% of total governmental fund revenue; and
- Strong institutional framework score.

The city's full faith and credit, payable from revenue from an unlimited ad valorem tax, secures the series 2019 bonds. Proceeds will be used to fund a variety of capital improvements throughout the city.

The city has pledged its limited port levy--which is limited to a maximum of a one-mill property tax levy, per Mississippi state code section 59-7-403, and levied on Harrison County's taxable assessed value (AV)--to the payment of its limited-tax port bonds. The county collects the limited-tax tax revenue and transfers the funds to the paying agent for payment of debt service, and any excess revenue flow back to the city. Should the limited-tax port revenue become insufficient to fund debt service, the city has pledged its lawfully available funds to make up the shortfall. Therefore, we rate the series 2017A and 2017B limited-tax port bonds to the strength of the city's lawfully available funds pledge. Given the lack of unusual risks associated with either the fungibility of the city's resources or its willingness to support the obligations, we view the pledge of the city's legally available funds as on par with its general creditworthiness.

Adequate economy

We consider Biloxi's economy adequate. The city, with an estimated population of 47,950, is located in Harrison County. It benefits, in our view, from a stabilizing institutional influence, and has a projected per capita effective buying income of 72.3% of the national level and per capita market value of $90,011. Overall, the city's market value grew by 3.1% over the past year to $4.3 billion in 2017. The county unemployment rate was 4.8%.

Located on the Gulf Coast, Biloxi is approximately 60 miles from Mobile, Ala., and 75 miles from New Orleans. Given the city's location, tourism and gaming play a large role in the local economy. Also benefiting the local economy is the presence of Keesler Air Force Base, the city's largest employer with more than 11,000 civilian and military employees. Approximately 7,400 of the aforementioned employees are military personnel, which leads us to believe that income indicators are likely understated in comparison with the local populace's true expendable income. Recent developments include the construction of over 300 non-casino hotel rooms, the issuance of 174 residential home building lot permits and 135 single-family home occupancy permits, and the addition of over 300 businesses to the area. Given the ongoing development as well as the city's historical trends, we believe that AV will continue to increase for at least the next few years, although not at a rate that would change our assessment of the economy score within the foreseeable future.

As a result of a modest decline in the total valuation of the top 10 taxpayers as well as continued AV growth, the city's top 10 taxpayer concentration fell to 32% in fiscal 2018 from 37% in fiscal 2017. The city's largest taxpayer is Beau Rivage at 10.5% of total AV, followed by Mississippi Power at 4.9% and Boyd/IP Casino at 4.8%.

Adequate management

We view the city's management as adequate, with standard financial policies and practices under our financial management assessment methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas.

Key practices include the use of historical trend analysis and the use of outside sources to make informed budget decisions. The council is updated monthly on budget-to-actual performance and the budget can be amended as needed. While Biloxi lacks its own formally adopted investment management policy, the city complies with restrictive state laws and reports holdings and earnings to the council on a monthly basis. Informally, the city also does some long-range capital planning and is expected to begin a long-term financial plan. Management targets maintaining at least 10% of expenditures in reserve in the general fund. The city lacks a formal debt management policy.

Strong budgetary performance

Biloxi's budgetary performance is strong, in our opinion. The city had balanced operating results in the general fund of 0.1% of expenditures but a slight deficit result across all governmental funds of 0.5% in fiscal 2017. General fund operating results of the city have been stable over the past three years, with a result of 2.0% in 2016 and a result of 0.4% in 2015.

We note that we have made a number of adjustments to the city's operating data to better analyze its typical operations and facilitate comparison with its peers. For instance, we have adjusted for one-time public safety expenditures funded by drug forfeiture funds, capital expenses funded by bond proceeds, one-time capital grants, and the refunding of a series of bonds.

Officials estimate that the city finished fiscal 2018 with a roughly $833,000 operating surplus in the general fund, which they attribute to conservative budgeting practices. For fiscal 2019, the city has budgeted for a roughly $1.5 million operating deficit, but officials report that their assumptions are once again conservative and that they realistically expect to finish the year closer to break-even. Supporting management's projections is the recent legalization of sports betting, which has already contributed to a roughly $250,000 increase in the city's gaming tax revenue in its first fiscal quarter. Given management's projections as well as the city's trend of historically stable operations, we believe the city will maintain at least adequate budgetary performance for the foreseeable future.

Strong budgetary flexibility

Biloxi's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2017 of 12.4% of operating expenditures, or $7.2 million.

Given the city's reserves as well as our expectation that the city will maintain stable operations, we expect that its budgetary flexibility will remain strong for the foreseeable future.

Very strong liquidity

In our opinion, Biloxi's liquidity is very strong, with total government available cash at 60.6% of total governmental fund expenditures and 6.1x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary, as it has issued several obligations over the past few years supported by different pledges.

We have adjusted the city's available cash figures to account for unspent bond proceeds, which we do not consider available for liquidity purposes. We further note that although the city is party to a privately placed grant anticipation note, we do not believe that any of the note's terms pose a risk to the city's liquidity or finances.

Weak debt and contingent liability profile

In our view, Biloxi's debt and contingent liability profile is weak. Total governmental fund debt service is 9.9% of total governmental fund expenditures, and net direct debt is 131.8% of total governmental fund revenue.

The city has no plans to issue additional debt within the next few years, and thus we do not anticipate that its debt profile will change materially.

Biloxi's pension contributions totaled 8.7% of total governmental fund expenditures in 2017. The city made its full annual required pension contribution.

The city provides retirement benefits through the Public Employees' Retirement System of Mississippi (PERS), a multiple-employer, cost-sharing defined benefit pension plan. In addition, the city has two closed plans, also administered by PERS: the Firemen's and Policemen's Disability and Relief Plan, and the Employee's Disability and Relief Plan. Biloxi makes all actuarially determined contributions to the plans. Its largest plan, PERS, is funded at 61.5%, with a net pension liability totaling $78.8 million. The city does not offer any other postemployment benefits.

Strong institutional framework

The institutional framework score for Mississippi municipalities is strong.

Outlook

The stable outlook reflects our opinion that the city's new developments and continued economic growth will provide additional revenue and support maintenance of strong reserves. The outlook also reflects our expectation that the city will continue to manage its significant capital program, continuing Katrina-related repairs and rehabilitations. Given the above, we do not expect to change the rating during our two-year outlook horizon.

Upside scenario

We could consider a higher rating if the city were to experience a substantial expansion of the local economy, leading to improved income levels and tax base diversification, coupled with improved budgetary flexibility.

Downside scenario

Conversely, we could take negative action if the city were to experience financial deterioration or if the tax base were to contract significantly.

Related Research

2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of January 9, 2019)		
Biloxi GO		
Long Term Rating	AA-/Stable	Affirmed
Biloxi GO		
Long Term Rating	AA-/Stable	Affirmed
Biloxi GO		
Long Term Rating	AA-/Stable	Affirmed
Mississippi Dev Bank, Mississippi		
Biloxi, Mississippi		
Mississippi Dev Bank (Biloxi) (Biloxi Stadium Proj) GO		
Long Term Rating	AA-/Stable	Affirmed