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Ratings

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Summary:
Sandy City, Utah; General Obligation

Primary Credit Analyst:
Treasure D Walker, Englewood + 303-721-4531; treasure.walker@spglobal.com

Secondary Contact:
Li Yang, San Francisco + 1 (415) 371 5024; li.yang@spglobal.com

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Summary:

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Credit Profile		
US$19.465 mil GO bnds ser 2024 due 04/01/2044		
Long Term Rating	AAA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long term rating to Sandy City, Utah's estimated $19.4 million series 2024 general obligation (GO) bonds.
- The outlook is stable.

Security

Revenue from unlimited ad valorem taxes levied on taxable property in the city secures the GO bonds.

The bond proceeds will finance all or a portion of the cost of constructing and equipping a new fire station and pay for the costs of issuance of the bonds.

Credit overview

Sandy City is the seventh-largest city by population in Utah with economic growth prospects underscored by proximity to the greater Salt Lake City metropolitan region. The city has historically maintained a strong financial position and liquidity to support community services and capital needs while also mitigating the risk of volatility tied to its leading source of revenue (sales taxes). The city continues to use economic development tools and infrastructure investments to retain and attract businesses and create a highly skilled labor pool that provides economic stability. Adding to the city's credit strength are its extensive and well-integrated fiscal management practices and policies, which are the bedrock for its long history of fiscal stability and maintenance of strong reserves. In our view, the city's strong operating results the past decade, manageable debt burden, and very strong economic profile support credit quality.

The rating reflects our view of the city's:

- Nearly built-out bedroom community with employment opportunities throughout the Salt Lake City metropolitan, with household incomes above the national average, but are relatively suppressed, in our opinion, as a result of large households in the area;
- Strong financial profile characterized by a track record of positive operating results, maintenance of robust reserves, and a revenue profile largely supported by local taxes such as sales, property, and franchise taxes;
- Strong financial policies and practices, including long-term planning to support financial stability;
- Very strong institutional framework score; and
- Manageable debt burden, well-funded pension plans, and lack of additional debt plans.

Environmental, social, and governance

We analyzed the city's environmental, social, and governance risks relative to its economy, management, financial measures, and debt-and-liability profile. We view social and governance risks as neutral in our credit analysis. We believe the city has elevated physical and natural capital risks steaming from long-term water supply challenges, which could constrain for its economy and demographic profile, as resources are projected to remain suppressed, particularly given the pervasive drought conditions in the western U.S. However, we recognize that the city is actively involved in promoting water conservation and ensuring a sufficient water supply to continue to meet increasing customer demand. The Metropolitan Water District of Salt Lake and Sandy recently received a grant to construct managed aquifer recharge facilities, which will allow the district to capture water rights during periods of high runoff and to store them in the aquifer for future needs.

Outlook

The stable outlook reflects our view that Sandy City will maintain its strong financial profile despite heightened macroeconomic risks and inflationary pressure. In addition, the outlook reflects our view of the city's very strong economy, evident in robust growth in its taxable and employment base that bolsters its above-average wealth and income characteristics. We do not expect to change the rating during our two-year outlook horizon.

Downside scenario

We could lower the rating if the city experiences financial pressure--stemming from fixed costs, elevated capital spending, or other causes--that leads to a material decline in available fund balance to level below our strong threshold.

Credit Opinion

Stable economic base with ties to the Salt Lake City metropolitan

Sandy City, located 15 miles south of downtown Salt Lake City along Interstate 15, serves as a built-out bedroom community for the greater Salt Lake City metropolitan region. The local economy centers on retail, financial services, higher education, and health care. With its close proximity to Interstate 15 and the Salt Lake International Airport, the city has easy access to employment opportunities throughout the greater Salt Lake City regional economy. Beyond these primary employment sectors, a combination of commercial and industrial investment and new home construction has spurred economic growth. Recent economic developments include the city's Cairns development, which officials anticipate will result in additional infill development over the next couple of decades. In the near term, we anticipate that Sandy City's economy will continue to trend positively, supporting stability in core revenue.

History of stable budget performance, with robust capital improvement planning and stable reserve position to support structural balance and council-identified priorities

Sandy City's financial profile is stable: The city has finished the past three audited fiscal years with positive operating results and has historically maintained strong reserves while transferring and allocating excess revenue to its capital project fund. Although the city's general fund reserve position is below average compared with that of peers, we note that the city transfers excess revenue to its capital projects fund to meet some of its future capital needs. The capital projects fund had a fund balance of $34.6 million, or nearly 54% of general fund expenditures, in fiscal 2023. We expect the city's fund balance to remain strong as it continues its practice of paying for capital outlay needs as identified in its capital improvement plan on a pay-as-you-go basis.

In fiscal 2023, the primary source of operating revenue was taxes, primarily consisting of sales taxes (42%), property taxes (17%), franchise taxes (12%), and motor vehicle fees (less than 1%).

Based on its adopted budget, the city is expected to finish fiscal 2024 with balanced operations as a result of conservative budgeting and growth in core revenues.

Strong framework of financial management with several adopted policies and long-term planning tools

Highlights of financial management policies and practices include:

- Budget assumptions that incorporate historical trend analysis and independent third-party sources;
- Monthly budget-to-actual results to the council, with regular reviews of revenue and expenditure trends by city management;
- A five-year general fund revenue and expenditure forecast, which management hasn't updated since 2022;
- A five-year capital improvement plan that identifies funding sources for the current budget year;
- Formal debt and investment management policies with reporting on holdings and performance in the city's annual financial report; and
- A formal general fund reserve policy equal to a minimum of 11% to 12% of operating expenditures for economic uncertainties.

The institutional framework score for Utah cities is very strong.

Management reports that the city has not been the subject of a successful major cyber-attack in recent years and manages this risk with an array of policies and practices to harden its defenses, plus system backups that would aid in a recovery.

Manageable debt burden with average principal amortization and no additional debt plans

Total direct debt outstanding is about $111 million, primarily consisting of priority-lien debt, leases, and revenue-secured bonds. In the next two years, the city has no additional debt plans to issue GO bonds.

Well-funded pension liabilities and no other postemployment benefits (OPEBs)

The city participates in several cost-sharing defined benefit pension plans managed by the Utah Retirement Systems, all of which are funded at 90% or more. The city also participates in defined contribution savings plans with the Utah Retirement Systems. Sandy City's contributions are actuarially determined and, in the most recent year, exceeded our minimum funding progress metric, indicating our view that the city is making timely progress toward full funding.

We consider the city's plans' discount rate, which is higher than our guideline, to include risk of contribution volatility. In addition, the plans' somewhat high payroll growth rate basis of 3.25% defers contributions, and this could pose a risk to credits in the future. The reasonably short amortization period of 20 years, in line with our guidance, somewhat mitigates these factors risks.

Ratings above the sovereign

Sandy City is eligible for a rating higher than the sovereign because we think the city can maintain strong credit characteristics relative to the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the city has predominantly locally derived revenue with independent taxing authority and treasury management from the federal government.

Sandy City, Utah--Key credit metrics

	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	107			
Market value per capita ($)	232,604		183,359	168,916
Population			96,711	95,824
County unemployment rate (%)			2.3	2.8
Market value ($000)		22,495,350	17,732,790	16,186,215
Ten largest taxpayers % of taxable value		7.1	8.0	10.8
Strong budgetary performance				
Operating fund result % of expenditures		0.4	0.6	1.4
Total governmental fund result % of expenditures		11.6	10.7	22.6
Strong budgetary flexibility				
Available reserves % of operating expenditures		12.1	11.7	11.7
Total available reserves ($000)		8,616	8,329	7,887
Very strong liquidity				
Total government cash % of governmental fund expenditures		134	137	109
Total government cash % of governmental fund debt service		1,465	504	1,042
Very strong management				
Financial Management Assessment	Strong			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		9.1	27.1	10.4
Net direct debt % of governmental fund revenue	96	75	77	69
Overall net debt % of market value	1.2	1.3	1.8	2.1
Direct debt 10-year amortization (%)	61	70	69	69
Required pension contribution % of governmental fund expenditures		7.6	7.1	7.2
OPEB actual contribution % of governmental fund expenditures		0.0	0.0	0.0
Very 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
- 2022 Update Of Institutional Framework For U.S. Local Governments