

RatingsDirect®

Summary:

Sand Springs, Oklahoma; General Obligation

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Credit Profile		
US\$2.575 mil GO ltd tax bnds ser 2024 dtd 06/01/2024 due 06/01/2044		
Long Term Rating	AA/Stable	New
Sand Springs GO		
Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to the City of Sand Springs, Okla.'s approximately \$2.6 million series 2024 general obligation (GO) bonds.
- S&P Global Ratings also affirmed its 'AA' rating on the city's existing GO and limited-tax debt.
- The outlook is stable.

Security

Revenue from ad valorem taxes, without limitation as to rate or amount, secure the GO bonds. The proceeds will be used for public safety and park improvements.

Under the limitations set forth in the Oklahoma Constitution, the city's limited-tax GO bonds are payable with revenue from a limited ad valorem tax that is not to exceed 5 mills. In accordance with our criteria, "Issue Credit Ratings Linked to U.S. Public Finance Obligors' Creditworthiness," published Nov. 20, 2019, we do not differentiate between the ratings on Sand Springs' limited- and unlimited-tax GO debt, because the limited-tax debt is consistent with our view of the city's general creditworthiness, as reflected in the rating on the unlimited-tax GO bonds.

Credit overview

Our rating is supported by the city's very strong reserve position, more than 52% after fiscal 2022, with additional funds available in other governmental funds, along with the city's location in the growing Tulsa metropolitan statistical area (MSA). Sand Springs has experienced robust assessed value (AV) growth in the past two years due to its location near Tulsa, which houses a diversified economy that includes health care, aerospace manufacturing, airline maintenance, and higher education. This growth can be attributed to expansion in retail and residential offerings, with sales taxes increasing by 24% since 2018. While the city's economic metrics are lower than those of medians for similarly rated credits, Sand Springs' tax base continues to grow, as management communicated the expectation for further retail projects coming online in the medium term, and additional sales tax growth as a result of this. In conjunction with growing residential development, the city has seen associate new retail, and a major industrial business in the area is planning to increase its presence.

Sand Springs' revenue mix is dependent on sales tax revenues (more than 65% of tax revenues in fiscal 2022), which can lead to volatility in budgetary performance, as exemplified by the city's surplus in 2021 and deficit in 2022.

However, officials project a \$1.3 million surplus in 2023 and expect a similar result in 2024. The deficit in 2022 was primarily due to the rolling over of purchase orders from 2021, while the surplus expected in 2023 is due to further tax growth and better-than-anticipated spending, which came in at approximately 15% above budgeted. Given the city's recent history of stable performance, we believe its financial performance will continue to remain a credit strength and allow it to maintain stable operations in the future, especially when factoring in management's expectation of budget surpluses in 2023 and 2024. In addition, management does not have plans for additional debt in the next two-to-three years, and the city's amortization is average with 47% of debt scheduled to retire in the next 10 years. Although the debt burden is weak, in our view, given steady growth in the tax base and financial performance, we expect debt will remain manageable in the near term. We also do not consider the city's pension contributions a credit weakness at this time given strong funded ratios.

The rating reflects our view of the city's:

- Very strong fund balances, which exceed 100% when other monies in enterprise and other governmental funds are included, but revenues that support these fund balances are dependent on sales taxes;
- Weak debt burden compared with that of peers, with an average amortization, but manageable other postemployment benefits and pension contributions, with a relatively low liability when compared with reserves on hand;
- Growing economy near the Tulsa MSA, buoyed by the residential sector, with further expected growth in the MSA as well as Sand Springs itself given the significant amount of developable land available; and
- A strong institutional framework and standard Financial Management Assessment, reflecting monthly budget-to-actual reporting, historical trend analysis for budgeting, and in-progress development of a long-term capital plan along with debt management plans.

Environmental, social, and governance

Although the city has suffered a major wind storm event, we believe that the overall environmental risks to the city are still neutral in our credit analysis. Our analysis also encompasses a review of social, and governance risks. We analyzed the city's risks relative to the county's economy, management, financial metrics, and debt and liability profile, and have incorporated these factors into our rating as being neutral.

Outlook

Our stable outlook reflects our view that Sand Springs' strong reserve position will help the city withstand any fluctuations in sales tax receipts, and we also expect the future residential and retail developments will help further expand the city's tax base.

Downside scenario

If sales taxes deteriorate and the city does not adjust, leading to a material decline in reserves along with sustained weak financial performance, we could lower the rating.

Upside scenario

If Sand Springs' economic metrics increase to levels commensurate with those of higher-rated peers, along with some further stabilization away from heavy exposure to the oil and gas sector, and if management formalizes some of its financial management practices while all other credit factors remain stable, we could raise the rating.

Sand Springs, Okla.--key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
Adequate economy				
Projected per capita EBI % of U.S.	81.7			
Market value per capita (\$)	76,267			
Population		20,682	20,526	
County unemployment rate(%)		3.0		
Market value (\$000)	1,577,356	1,460,271	1,429,838	
Ten largest taxpayers % of taxable value	18.6			
Strong budgetary performance				
Operating fund result % of expenditures		5.0	-0.1	21.7
Total governmental fund result % of expenditures		10.3	0.5	8.2
Very strong budgetary flexibility				
Available reserves % of operating expenditures		55.5	52.7	57.4
Total available reserves (\$000)		9,681	8,703	8,940
Very strong liquidity				
Total government cash % of governmental fund expenditures		293.6	235.5	216.9
Total government cash % of governmental fund debt service		3,241.8	2,450.6	1,961.2
Adequate management				
Financial Management Assessment	Standard			
Weak debt and long-term liabilities				
Debt service % of governmental fund expenditures		9.1	9.6	11.1
Net direct debt % of governmental fund revenue	120.0			
Overall net debt % of market value	3.7			
Direct debt 10-year amortization (%)	47.2			
Required pension contribution % of governmental fund expenditures	2.1			
OPEB actual contribution % of governmental fund expenditures	0.0			
Strong institutional framework				

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

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2023 Update Of Institutional Framework For U.S. Local Governments

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