

CREDIT OPINION

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City of Starkville, MS

Update to credit analysis

Summary

The City of Starkville (A1) will continue to benefit from a stable economy and presence of Mississippi State University, which counter below average resident income. The city's financial ratios have been stable and will remain consistent. Starkville's leverage is moderate and will remain fairly low following issuance of the 2024 GO bonds.

Credit strengths

- » Stabilizing economic presence of Mississippi State University
- » Consistent cash and reserve ratios
- » Moderate long term leverage and annual fixed costs

Credit challenges

- » Well below average resident income
- » Below average cash and reserves relative to sector medians

Rating outlook

Moody's does not assign outlooks to local government issuers with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Significantly improved resident income to a level closer the 85% sector median
- » Sustained operating surpluses resulting in reserve and cash balanced nearer to 40%

Factors that could lead to a downgrade

- » Materially weakened economy with resident income or full value below current levels
- » Deterioration of cash and reserve ratios below 20%

Key indicators

Exhibit 1

Starkville (City of) MS

	2019	2020	2021	2022	A Medians
Economy					
Resident income ratio (%)	66.6%	66.0%	60.0%	57.2%	85.3%
Full Value (\$000)	\$1,737,742	\$1,810,142	\$1,889,010	\$1,929,334	\$765,032
Population	25,387	25,495	24,578	24,274	10,363
Full value per capita (\$)	\$68,450	\$71,000	\$76,858	\$79,481	N/A
Annual Growth in Real GDP	0.8%	-0.3%	3.5%	2.4%	4.7%
Financial Performance					
Revenue (\$000)	\$75,970	\$77,162	\$83,302	\$89,507	\$22,589
Available fund balance (\$000)	\$26,934	\$23,910	\$24,604	\$24,433	\$9,301
Net unrestricted cash (\$000)	\$23,467	\$20,952	\$21,244	\$22,345	\$13,502
Available fund balance ratio (%)	35.5%	31.0%	29.5%	27.3%	40.7%
Liquidity ratio (%)	30.9%	27.2%	25.5%	25.0%	55.3%
Leverage					
Debt (\$000)	\$53,631	\$85,661	\$77,564	\$75,769	\$18,954
Adjusted net pension liabilities (\$000)	\$90,010	\$103,291	\$99,017	\$81,131	\$28,106
Adjusted net OPEB liabilities (\$000)	\$0	\$0	\$0	\$0	\$1,627
Other long-term liabilities (\$000)	\$582	\$3,675	\$4,110	\$4,299	\$749
Long-term liabilities ratio (%)	189.8%	249.6%	216.9%	180.1%	272.9%
Fixed costs					
Implied debt service (\$000)	\$3,441	\$3,910	\$6,134	\$5,440	\$1,360
Pension tread water contribution (\$000)	\$2,570	\$2,681	\$3,250	\$2,342	\$864
OPEB contributions (\$000)	\$0	\$0	\$0	\$0	\$56
Implied cost of other long-term liabilities (\$000)	\$40	\$42	\$263	\$288	\$47
Fixed-costs ratio (%)	8.0%	8.6%	11.6%	9.0%	12.6%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the Oktibbeha County, Mississippi [issuer specific] Metropolitan Statistical Area.

Sources: US Census Bureau, Starkville (City of) MS's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

The City of Starkville is located approximately 125 miles northeast of the City of Jackson (Baa3 stable) and 165 miles southeast of the City of Memphis, Tennessee (Aa2 stable). The city's economy is largely based in manufacturing and retail and benefits from the presence of a major university. The city's estimated population is approximately 24,000.

Detailed credit considerations

Mississippi State University will remain an indispensable component of the economy though Starkville and the surrounding area have also been boosted in recent years by investments made in manufacturing, retail, and sport- hospitality in particular. MSU includes 23,000 students and approximately 4,800 employees. MSU home football games are key significant economic events as the 60,000 stadium more than doubles the city's population. The University will remain a positive economic force as its enrollment has grown by about 9% since 2015. The city also projects that its recently opened sports complex will solidify its position as a locus for regional baseball and softball tournaments of which there are currently about 40 scheduled. Manufacturing has grown as a result of the relocation of Columbia Industries from Oregon to Starkville and the expansion of Steel Dynamics in neighboring Lowndes County. The city's approximately 60% resident income is well below average for the rating category and impacted by the large student population.

The city's fund balance and cash ratios are well below the median for A-rated cities and counties but will continue their history of stability. The government wide available fund balance and cash balance as of the 2022 audit (most recent available) are 27% and 25% compared to medians of 41% and 55%. We anticipate that the city's government wide cash and reserves will remain stable in fiscal

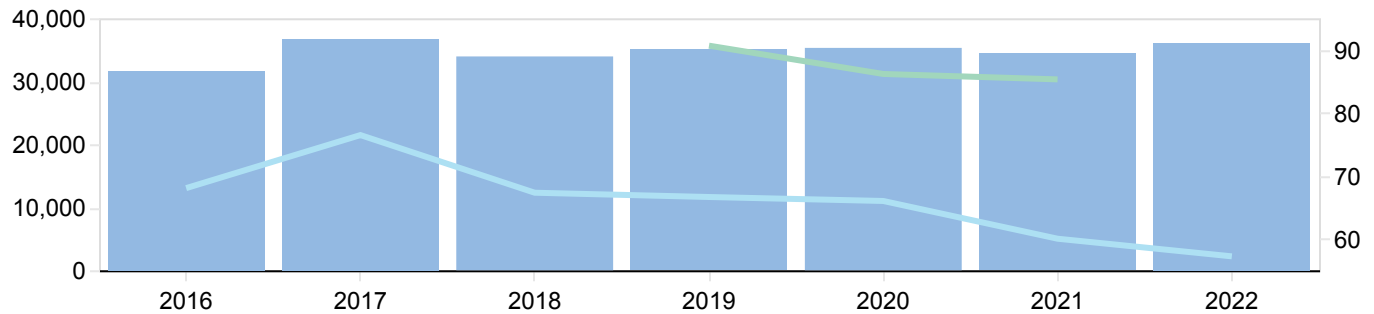
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

2023 and 2024 given that it does not anticipate any material deficits in areas outside of the general fund. In addition, general fund revenue has risen steadily over the last five years driven up by growing property tax and sales tax revenue. The city projects a \$516,000 general fund surplus in fiscal 2023 and a minor \$942,000 deficit in fiscal 2024. The leverage position reflects a long-term liabilities ratio of 180% and well below the median as a result of improved pension fund performance amid the elevated interest environment. The annual fixed costs are similarly moderate at 9%. These figures will increase somewhat after the current sale but remain credit positives.

Exhibit 2

Resident Income

■ Median household income (\$) — Resident income ratio (%) — A median resident income ratio (%)



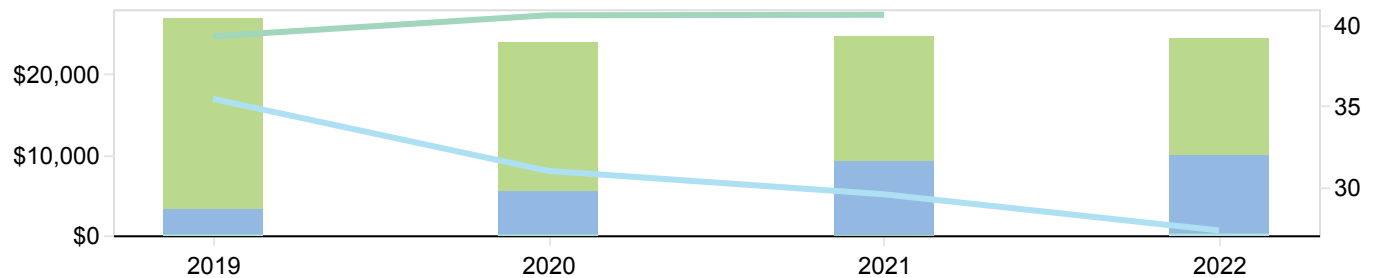
Source: Moody's Investors Service

Financial operations

Exhibit 3

Fund Balance

■ General fund ■ Other governmental funds ■ Internal service funds ■ Business-type activities
 — Available fund balance ratio (%) — A median available fund balance ratio (%)



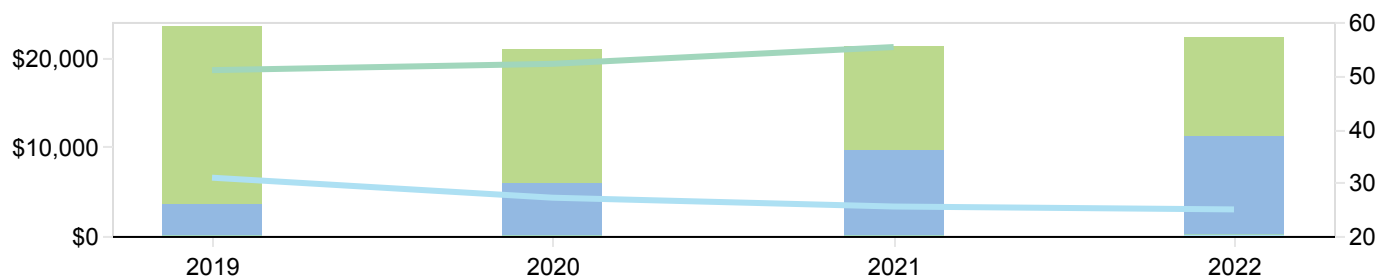
Source: Moody's Investors Service

Liquidity

Exhibit 4

Cash

General fund Other governmental funds Internal service funds Business-type activities Liquidity ratio (%)
A median liquidity ratio (%)



Source: Moody's Investors Service

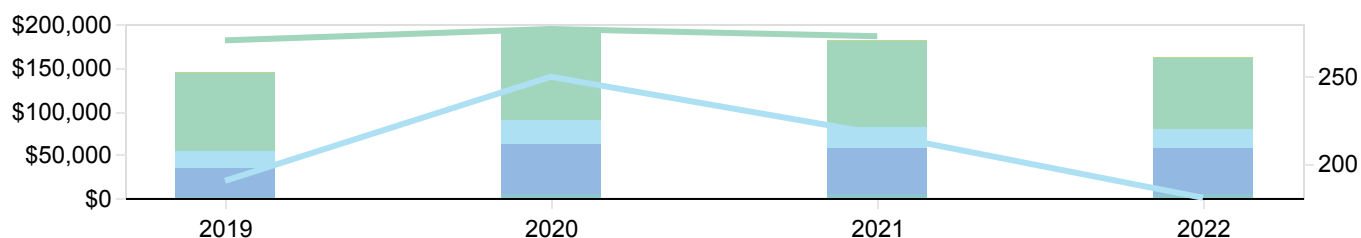
Leverage

Mississippi cities and counties participate in the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. The employer contribution rate, currently 17.4% of payroll, is established by the state legislature and has historically fell below our "tread water" indicator, meaning it is has not been sufficient to prevent reported unfunded liabilities from growing. In August 2023, the PERS Board of Trustees voted to phase in increases to the employer contribution rate and lower the assumed rate of return from 7.55% to 7%. Beginning in 2024, the employer contribution rate will increase 2% annually until it reaches the actuarially recommended amount, estimated to be 27.4% under the new discount rate.

Exhibit 5

Total Primary Government - Long Term Liabilities

Governmental Debt Business-Type Activity Debt Adjusted net pension liabilities
Adjusted net other post-employment liabilities Other long-term liabilities Long-term liabilities ratio (%)
A median long-term liabilities ratio (%)



Source: Moody's Investors Service

ESG considerations

Environmental

Starkville's exposure to environmental risk is largely driven by its elevated exposure to hurricanes, wildfire and tornado risk. The city's exposure to other environmental risks includes moderate exposure to heat stress. We do not anticipate material credit risk attendant to carbon transition, water management, natural capital or waste and pollution.

Social

The town benefits from a very low housing cost, sound access to basic services and solid public health and safety. The presence of MSU has helped lead to a strong, well above average level of residents with a college degree, an enhancement to the quality of the labor force. However, its social profile is weakened by low resident income.

Governance

The city benefits from solid financial disclosure and transparency and adherence to well conceived policies. The city has also managed its budget in a manner that has produced operating results that are typically in line with budgeted expectations, while generally maintaining consistent cash and reserve ratios.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 6

Starkville (City of) MS

	Measure	Weight	Score
Economy			
Resident income ratio	57.2%	10.0%	Ba
Full value per capita	88,223	10.0%	A
Economic growth metric	-0.7%	10.0%	Aa
Financial Performance			
Available fund balance ratio	27.3%	20.0%	Aa
Liquidity ratio	25.0%	10.0%	A
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	180.1%	20.0%	Aa
Fixed-costs ratio	9.0%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			A1
Assigned Rating			A1

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Oktibbeha County, Mississippi [issuer specific] Metropolitan Statistical Area to the five-year CAGR of real GDP for the US

Sources: US Census Bureau, Starkville (City of) MS's financial statements and Moody's Ratings

Appendix

Exhibit 7

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

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