

# **Bond Case Briefs**

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## **Ferguson Unrest Exposes Struggle to Recover: Muni Credit.**

Violent unrest that captured global attention is revealing Ferguson, Missouri, as a city still struggling to mend its finances more than five years after the end of the longest U.S. recession since the 1930s.

The community of 21,000 outside St. Louis proposed a budget for the year beginning July 1 that showed expenses outpacing revenue by \$3.8 million, according to a notice from the city clerk. Ferguson had projected a \$7.3 million gap in the prior fiscal year. Its general fund balance had been bolstered in previous years by bond sale proceeds, city documents show.

With a poverty rate that's more than doubled since 2000, Ferguson will also have to contend with losses associated with the aftermath of the Aug. 9 shooting death of an unarmed black teenager by a police officer. The protests shut down businesses, exacerbating the city's challenges in an era of constrained municipal resources that Moody's Investors Service calls the "new stable."

"These events have grown so out of proportion to the size of the city that a lot of it is no longer in their control," said Howard Cure, the head of municipal research at New York-based Evercore Wealth Management LLC, which oversees \$5.2 billion. "Because of the scale of the city — it's so small — it can have a disproportionate effect on their finances."

### **'Extraordinarily Slow'**

Cities, counties and school districts across the U.S. have cut costs and don't expect economic conditions to return to pre-2008 levels, according to Moody's. The collapse of U.S. home prices in the 18-month recession that ended in June 2009 squeezed local budgets because property taxes are usually their largest source of revenue.

Ferguson acknowledged in its budget last year that "the recovery has been extraordinarily slow" and it has struggled to collect revenue. After 2007, the city lost almost \$1.5 million annually in sales taxes and hasn't fully recovered, according to the document.

Amid the tumult, Ferguson officials were unavailable via telephone, e-mail and at City Hall to respond to inquiries about the financial implications of the violence and protests.

City Manager John Shaw didn't respond to messages seeking comment. Finance Director Jeffrey Blume directed a reporter at City Hall to City Clerk Megan Asikainen, who didn't respond to messages seeking comment.

Ferguson has a "commitment to rebuild and enhance the West Florissant business district," the city said Aug. 19 in a statement.

### **Underwater Mortgages**

The poverty rate in Ferguson was about 22 percent in 2012, the most recent available, up from 10.2 percent in 2000, according to Census Bureau data. While Ferguson's median income in 2000 was on

par with that of Missouri, in 2012 it fell about \$10,000 behind the state's figure of \$47,300.

The St. Louis area has been among the slowest to recover from the downturn, according to a December report on localities from Moody's. Loan balances exceed house values on about 25 percent of owner-occupied homes, the 10th-highest percentage nationwide of so-called underwater mortgages.

Before protesters took aim at police by hurling bottles and Molotov cocktails, looters ransacked businesses along West Florissant Avenue. That prompted more than a dozen to board up their doors and windows or face destruction, costing the city needed revenue.

Robin Shively's Corners Frameshop & Gallery on South Florissant had only four customers in the week after the shooting. Realtor Pearce Neikirk is advising some clients to consider taking homes off the market until the situation improves.

### **Federal Aid**

To offset the losses, community members are crafting a plan to patronize a part of Ferguson's downtown that hasn't been affected, said Denny Coleman, chief executive officer of the St. Louis Economic Development Partnership, which aims to expand business in the city and county.

"Everybody is sensitive to the fact that these small retailers have a short-time span when they can be down for business," Coleman said in an interview. "They have to be up and operating on a very consistent basis in order to keep their head above water, much less make a good living."

The municipalities affected, including Ferguson and neighboring Dellwood, haven't tallied up all the potential losses, according to Coleman, who said there's some hope that federal assistance might replace lost tax revenue.

### **Fiscal Strains**

Ferguson has faced fiscal strains before. In May 2013 a tornado left property damage and widespread power outages, costing the city almost \$600,000 on storm recovery, budget documents show. It offset some of the expenses with assistance from the Federal Emergency Management Agency.

While natural disasters often prompt federal and state help, it's unclear what commitment, if any, Missouri and the U.S. government may make to assist Ferguson, Cure said.

Bond proceeds covered revenue deficiencies in the 2012 and 2013 fiscal years, budget documents show. This year would mark the first since 2010 that the city didn't issue new debt, data compiled by Bloomberg show.

The city's most recent municipal-bond sale was a \$9 million issue of certificates of participation in January 2013, Bloomberg data show. Moody's rates the debt A1, the fifth-highest level of investment grade. Proceeds helped pay for renovations to the police department and community center, according to city documents.

### **Debt Service**

The most-recent Ferguson debt that traded is due March 2021, Bloomberg data show. The general obligations, rated one step higher than the certificates, changed hands July 22 at a yield of 1.5 percent, or about 0.09 percentage point more than benchmark munis with a similar maturity.

Debt service grew to \$2.88 million in the 2014 fiscal year from \$2.52 million in 2012, according to budget documents.

At a board meeting on Aug. 21 of the Ferguson Special Business District, owners of small businesses described the slowdown.

Eileen Dyll said less than half the usual clients are coming into her independently owned Curves location. Ferguson Bicycle Shop owner Gerry Noll said it's the same for him, though it'll be months before he knows the full impact.

"A lot of businesses might have to shut their doors," Noll said. "A lot of businesses, the cash flow won't support like a month of bad sales."

By Brian Chappatta and Elizabeth Campbell Aug 24, 2014 5:00 PM PT

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