

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aa3 to City of Topeka, KS' \$44.6M Combined Utility Improvement Bonds, Ser. 2014-A

Global Credit Research - 02 Dec 2014

Aa3 rating applies to \$132M of outstanding junior lien revenue debt

TOPEKA (CITY OF) KS
Combined Water & Sewer Enterprise
KS

Moody's Rating

ISSUE	RATING
Combined Utility Improvement and Refunding Revenue Bonds Series 2014-A	Aa3
Sale Amount	\$44,600,000
Expected Sale Date	12/09/14
Rating Description	Revenue: Government Enterprise

Moody's Outlook STA

Opinion

NEW YORK, December 02, 2014 --Moody's Investors Service has assigned a Aa3 rating and stable outlook to the City of Topeka's (KS) \$44.6 million Combined Utility Improvement and Refunding Revenue Bonds, Series 2014-A. Concurrently, Moody's has maintained the Aa3 rating and stable outlook on the city's parity combined utility revenue debt. Post-sale, the city will have \$132 million of parity combined utility revenue debt outstanding. The outlook is stable. The bonds are payable solely from a subordinate lien on the net revenues of the city's Combined Water, Water Pollution Control, and Stormwater Utility System. The subordinate lien bonds are paid after the system's \$59 million in outstanding State Revolving Fund loan debt. Proceeds of the Series 2014-A bonds will finance various system improvements as well as refund portions of the combined utility's outstanding Revenue Bonds, Series 2005-A, Series 2006-B, Series 2007-B, for estimated combined present value savings of \$3.5 million.

SUMMARY RATINGS RATIONALE

The Aa3 rating and stable outlook is based on the system's stable service area; satisfactory financial operations with improved liquidity in recent years; rate setting authority of the city council; recently approved rate increases; satisfactory debt service coverage with moderate future debt plans; and adequate legal covenants.

STRENGTHS

- Stable service base encompassing the Kansas state capital of Topeka (Aa3)
- Improved liquidity position in recent years

CHALLENGES

- Moderately leveraged debt position combined with planned capital improvement needs

SATISFACTORY LEGAL COVENANTS FOR REVENUE DEBT

The system's revenue debt benefits from satisfactory legal covenants. The bonds have a junior lien pledge on the net revenues from the combined utility. The \$59 million in outstanding state revolving loan fund debt has a senior lien on the gross revenues of the system. The legal covenants require net revenues to provide 1.25 times coverage on annual junior lien parity debt service and an additional bonds test of 1.25 times maximum annual debt

service coverage based on projected annual net revenues in any succeeding year. The net revenue pledge considers senior lien SRF loan debt service as an operating expense. Other bondholder protections include a debt service reserve account funded at the lesser of maximum annual debt service on the current bonds and any additional bonds issued on parity with the current bonds; 125% of the average annual debt service on such bonds; or 10% of the principal amount of such bonds.

STABLE SERVICE AREA IN STATE CAPITAL

The service area is expected to remain stable given the City of Topeka's role as state capital. Government-related employment in the city provides overall economic stability (the state employs approximately 8,100 people in Topeka). Also contributing to tax base stability is the presence of several large medical centers, including a Veterans Administration hospital. The system has five senior Water Rights granted by the Kansas Department of Agriculture's Kansas Water Office to the Kansas River, which is the system's sole source of water. The system provides treatment and distribution services to approximately 57,000 customers; the wastewater system serves approximately 47,000 customers; and the stormwater system serves approximately 46,000 customers. Among the water system's top customers are several rural water districts that receive water via long term contracts. The top customers are relatively diverse, representing a variety of industries, including manufacturing, government, service and health care. Notably, the city expects that Goodyear Tire & Rubber Company (Long-term corporate family rated Ba3/positive outlook), which is the third largest water utility customer, will also become a major wastewater customer next year, and is expected to generate approximately \$750,000 of additional annual revenue for the wastewater system. Additionally, officials noted the recent opening of a \$270 million Mars plant facility that is expected to add approximately 200 new jobs to the Topeka area. The city reports that operations at the utilities' other large customers all remain stable.

FINANCIAL OPERATIONS CHARACTERIZED BY IMPROVED LIQUIDITY; SATISFACTORY DEBT SERVICE COVERAGE

A trend of satisfactory financial performance characterized by an improved cash position points to the continuation of stable financial performance. The city's Water, Water Pollution Control, and Stormwater Utility Fund closed fiscal 2013 with \$52 million in net working capital, including \$33.9 million held as unrestricted cash and investments. The utility's unrestricted cash position reflects a significant increase over the fiscal 2009 level of \$10.2 million.

The Topeka City Council has independent rate-setting authority, and rate increases have historically been implemented for multiple years at a time based on projected capital expenditures and rate covenants for debt service. The city council approved an ordinance in April 2008 for annual water system rate increases of 24.3%, 1.8%, 1.7%, and 1.8% through fiscal 2011; annual wastewater system rate increases of 4% each year through fiscal 2011; and a one-time 17% increase in stormwater system rates. The city council recently approved annual rate increases of 6% in fiscal 2015, 5% in fiscal 2016, and 5% in fiscal 2017. The rate increases scaled to cover a 5 year Capital Improvement Plan the council approved at the same time.

In fiscal 2013 operations narrowed, reducing total debt service coverage from 1.91 times in fiscal 2012 to 1.23 times coverage in fiscal 2013. Official cited lower demand due to wetter weather. Fiscal 2013 junior lien coverage was 1.41 times which is above the city's rate covenant of 1.25 times. While audited results are not yet available, officials report fiscal 2014 figures are tracking to budget and expect to meet projected coverage of over 2.0 times total debt service. Pro forma fiscal 2015 figures, which include the first phase of the three year rate increase, provides solid maximum annual debt service coverage (MADs), which occurs in fiscal 2024, of 2.06 times on junior lien revenue, after payment of senior lien debt service, which is considered an expense in determining net revenues. Future credit reviews will take into account the system's ability to ensure revenues generated are sufficient to accommodate projected borrowing and capital expenses, while maintaining current coverage ratios.

DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE; MODERATE FUTURE DEBT PLANS

Topeka's combined utility system's debt burden will likely remain moderately leveraged in the near term due to capital projects that are planned over the next several years. Projected capital expenditures for major projects for the combined system total approximately \$75 million over the next five years, with projected expenditures for routine projects totaling approximately \$67 million through 2019. Management indicates that future debt issuance will likely be parity subordinate lien net revenue debt as opposed to SRF loans. The system currently has \$59 million of senior lien SRF loan debt outstanding and \$132 million of junior lien net revenue debt outstanding. The system is moderately leveraged, with a fiscal 2013 debt ratio of 46.2% combined with slow principal amortization 45.2% of the principal on all junior lien debt is retired in ten years. All of the system's debt is fixed rate, and the system is not a party to any interest rate swap agreements.

Outlook

The stable outlook reflects the system's stable service area; financial operations that are bolstered by the city council's rate setting authority; and satisfactory debt service coverage with moderate future debt plans.

WHAT COULD CHANGE THE RATING - UP

- Significantly increased combined system cash balance
- Sustained increases to debt service coverage

WHAT COULD CHANGE THE RATING - DOWN

- Decreases in debt service coverage and/or material liquidity declines
- Substantial deterioration of system service area

KEY STATISTICS

Type of system: Combined (Water, Water Pollution Control, and Stormwater)

Fiscal 2013 debt service coverage (senior lien SRF loans): 2.81 times

Fiscal 2013 debt service coverage (subordinate lien): 1.41 times

Fiscal 2013 debt ratio: 46.2%

Fiscal 2013 operating ratio: 66.1%

Fiscal 2013 net working capital: \$52 million (129.6% of O&M expenditures)

Fiscal 2013 Unrestricted reserves: \$33 million (60.6% of O&M expenditures)

SRF loan debt outstanding (senior lien): \$59 million

Post-sale parity revenue debt outstanding (subordinate lien): \$132 million

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Tatiana Killen
Lead Analyst
Public Finance Group
Moody's Investors Service

Hetty Chang
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA



© 2014 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATION") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL

INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.