

RatingsDirect®

Summary:

Topeka, Kansas; General Obligation

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Summary:

Topeka, Kansas; General Obligation

Credit Profile

US\$21.105 mil GO bnds ser 2016A due 08/15/2031

Long Term Rating

AA/Positive

New

US\$4.25 mil full faith and credit tax incre rfdg bnds ser 2016 due 08/15/2025

Long Term Rating

AA/Positive

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating and positive outlook to the City of Topeka, Kan.'s series 2016-A general obligation (GO) bonds and the city's series 2016 full faith and credit tax increment refunding bonds.

At the same time, Standard & Poor's affirmed its 'AA' long-term rating and underlying rating (SPUR) on the city's existing GO debt. The outlook is positive.

The positive outlook reflects our opinion that there is a one-in-three chance we could raise the rating within the outlook's two-year period if the city's economy continues to expand, resulting in income levels that we consider good to strong, while sustaining very strong budgetary flexibility and adequate debt and contingent liability profiles, all other factors being equal.

The series 2016-A GO bonds and series 2016 full faith and credit tax increment refunding bonds are secured by the city's unlimited-tax GO pledge. Although the series 2016 refunding bonds are also secured by tax incremental revenues generated within the College Hill Redevelopment District, pledged tax increment financing (TIF) revenues only generate 50% of debt service, so we are determining the rating based on the stronger GO pledge. The multiple revenue streams criteria represent our assessment of the multiple pledges connected with series 2016 tax increment refunding bonds. We understand that officials will use proceeds from the series 2016A GO bonds to finance roughly \$1 million of general improvements within the city and refund \$20.7 million of Topeka's existing series 2011-A GO bonds for savings without extending maturities. Officials plan to use proceeds from the series 2016 tax increment refunding bonds to refund the city's series 2010 TIF bonds for savings and without extending maturities.

The rating reflects what we view as Topeka's:

- Adequate economy, with market value per capita of \$58,490 and projected per capita effective buying income at 84.4%, but that is benefitting from access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 22% of operating expenditures;

- Very strong liquidity, with total government available cash at 45.4% of total governmental fund expenditures and 3.1x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 14.5% of expenditures and net direct debt that is 145.5% of total governmental fund revenue, as well as rapid amortization, with 70.9% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Topeka's economy adequate. The city, with an estimated population of 128,725, is located in Shawnee County in the Topeka MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 84.4% of the national level and per capita market value of \$58,490. Overall, the city's market value was stable over the past year at \$7.5 billion in 2015. The county unemployment rate was 4.8% in 2014.

Topeka serves as both the seat of Shawnee County and the state capital. The city's broad and diverse economy anchors the Topeka MSA. Topeka's top four employers are the State of Kansas (an estimated 4,500 employees), health care provider Stormont-Vail Health Care (3,000-4,500), United School District No. 501 (2,000-2,999), and the U.S. government (1,000-1,999). As a result of economic development efforts and partnerships, management is optimistic that retail and commercial growth will continue to bolster the city's economic base. A recent \$100 million investment by global foods manufacturer MARS Inc. and a new \$20 million federal home loan bank development are the latest examples of the city's economic expansion. In addition, a \$60 million mixed use development that will include 102,000-square-feet of retail as well as multi-family and office space is currently under development. Continued growth in the service sector as well as expansion in the realm of manufacturing should allow income and wealth levels to increase over time and potentially lend to an improved economy, in our view. Topeka remains home to Payless ShoesSource, Hill's Pet Nutrition, Security Benefit Group, and Blue Cross and Blue Shield of Kansas.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights include the city's historical trend analysis and use of independent sources for projecting budget revenue and expenditures. The city regularly monitors its budget performance and provides written budget-to-actual financial reports to the public. Funds are reviewed monthly and quarterly, with amendments according to parameters established by Kansas law. Topeka's five-year financial plan is reviewed annually and identifies both revenue and expenditures. The five-year capital plan outlines projects with corresponding funding sources and is reviewed each year. Topeka also has investment and debt management policies that reflect statutory limitations and the city's own metrics. Investment reports, which include holdings and earnings, are prepared for the council monthly and reviewed quarterly. The debt management policy calls for a general fund balance reserve of no less than 10% of general fund revenue for the preceding year. However, as part of Topeka's long-term financial plan, the city aims to sustain reserves at 15% of general fund expenditures, to protect against unanticipated expenditures, which it which it had exceeded by roughly 7% as of fiscal year-end 2014.

Strong budgetary performance

Topeka's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 11.1% of expenditures, and slight surplus results across all governmental funds of 1.0% in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2014 results in the near term.

Fiscal 2014 was a very positive year for Topeka. Property tax revenue was up 14.0%, sales tax revenue up 3.8%, franchise fees up 15.0%, and general fund expenditures came out at 97% of budget.

For fiscal 2015, the city adopted a balanced budget that has trended favorably. Property tax revenue growth is forecast to remain in line with fiscal 2014 audited results and a 1%-2% increase projected for fiscal 2016 and fiscal 2017. Based on unaudited results and projections, city sales tax growth is projected at around 1.0% from fiscal 2015 through fiscal 2017. The city uses a conservative forecast, and does not typically spend 100% of the budgeted amounts, which is what officials assume in their forecasts. Not surprisingly, the city's actual budgeted expenditures are roughly 3%-5% lower than budgeted. On the revenue side, officials budget conservatively on sales tax revenue. During the past four years, the city averaged approximately 2.2% annual sales tax increases. This forecast trends out to a 1% overall increase, which, given commercial activity, we expect Topeka will outperform in fiscal years 2016 and 2017.

Officials report that voters renewed a 15-year extension of the countywide sales tax from 2017-2031 to provide for road and bridge projects and countywide economic development. Initially the levy was used to pay debt service on sales tax bonds issued to replace the Topeka Boulevard Bridge, which retires in 2016. The sales tax can also be used to fund both economic development and infrastructure projects. The renewal of the sales tax will allow officials to fund economic development projects and initiatives without using operational cash on hand.

Very strong budgetary flexibility

Topeka's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 22% of operating expenditures, or \$18.1 million.

Officials closed fiscal 2014 with available general fund reserves of over \$18 million, or 22% of operations. Based on unaudited results and projections, officials are forecasting to end fiscal 2015 with an available general fund balance of more than \$18.2 million, or 23% of expenditures, net adjustments made to account for a one-time \$4.1 million capital outlay. Officials are projecting to end fiscal 2016 and fiscal 2017 with reserve levels in excess of 22% of operations and 24% of operations, respectively.

Topeka's ability to improve its budgetary flexibility by 22% of operations coupled, with the city's projected maintenance of available general fund reserve levels at that level, is due to management's previous goal of restoring reserve levels to 15% of operations by 2018, which it far exceeded four years ahead of schedule.

Reduction of staff through attrition and focus on reducing expenditures across all departments, as well as a property tax increase, have been instrumental in allowing the city to reach its goal early and, more important, in our view, attain a position where it can maintain reserves with forecasts pointing toward continued improvement to slightly over 30% by 2021.

Very strong liquidity

In our opinion, Topeka's liquidity is very strong, with total government available cash at 45.4% of total governmental fund expenditures and 3.1x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

The city has demonstrated a consistent ability to tap the capital markets through routinely issuing both GO-supported and revenue-supported debt. Management anticipates that Topeka's cash position will remain stable. The city's investments are limited to pools and highly liquid instruments such as certificates of deposit, and treasuries, as prescribed by Kansas law. The city has no variable-rate debt or swaps in its portfolio.

Adequate debt and contingent liability profile

In our view, Topeka's debt and contingent liability profile is adequate. Total governmental fund debt service is 14.5% of total governmental fund expenditures, and net direct debt is 145.5% of total governmental fund revenue. Approximately 71% of direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Officials report that the city has no direct purchase obligations with acceleration provisions or transmittal risk in its portfolio, but rather traditional fixed-rate GO and revenue debt. Officials have no current plans to issue additional GO debt in the near term.

Topeka's combined required pension and actual other postemployment benefits (OPEB) contributions totaled roughly 6.9% of total governmental fund expenditures in 2014. Of that amount, 6.3% represented required contributions to pension obligations, and 0.5% represented OPEB payments. The city made its full annual required pension contribution in 2014.

As part of the state's defined benefit retirement plan, the Kansas Public Employees' Retirement System, the city continues to fulfill its annual required contribution. Carrying charges are elevated (20%) but do not represent a credit risk given rapid amortization. The city has historically contributed 100% in the past three fiscal years and does anticipate cost pressures.

Strong institutional framework

The Institutional Framework Overview: Kansas Local Governments municipalities with more than \$275,000 in annual gross receipts and more than \$275,000 in GO or revenue bonds outstanding is strong.

Outlook

The positive outlook reflects our opinion there is a one-in-three chance that we could raise the rating within the outlook's two-year period if Topeka's economy continues to expand resulting in income levels that we consider good to strong while sustaining very strong budgetary flexibility and adequate debt and contingent liability profiles, all other factors being equal. Should the city's financial position weaken within our two-year outlook horizon reflected by decreases in reserves, we could revise the outlook to stable.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

- Institutional Framework Overview: Kansas Local Governments
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of April 13, 2016)

Topeka GO		
<i>Long Term Rating</i>	AA/Positive	Affirmed
Topeka GO (MBIA)		
<i>Unenhanced Rating</i>	AA(SPUR)/Positive	Affirmed
Topeka GO		
<i>Long Term Rating</i>	AA/Positive	Affirmed
Topeka GO		
<i>Long Term Rating</i>	AA/Positive	Affirmed
Topeka GO		
<i>Long Term Rating</i>	AA/Positive	Affirmed
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Topeka GO		
<i>Long Term Rating</i>	AA/Positive	Affirmed
Topeka GO		
<i>Long Term Rating</i>	AA/Positive	Affirmed
Topeka GO		
<i>Long Term Rating</i>	AA/Positive	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,

have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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