

RatingsDirect®

Summary:

Topeka, Kansas; General Obligation; Note

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Credit Profile

US\$56.545 mil GO bnds ser 2015-A due 08/15/2035

Long Term Rating

AA/Positive

New

US\$14.34 mil GO temp nts ser 2015-A due 10/01/2016

Short Term Rating

SP-1+

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Topeka, Kan.'s series 2015-A general obligation (GO) bonds and our 'SP-1+' rating to the city's series 2015-A temporary notes. At the same time, we affirmed our 'AA' long-term rating and underlying rating (SPUR) on the city's existing GO debt. The outlook, where applicable, is positive.

The series 2015-A bonds and series 2015-A GO temporary notes are secured by the city's unlimited-tax GO pledge. Bond proceeds will be used to refund a portion of the city's debt for debt service savings as well as fund citywide improvements.

The ratings reflect our view of such factors as the city's

- Adequate economy, with projected per capita effective buying income (EBI) at 83.5% and market value per capita of \$58,490 as a result of 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 operating results that we expect could deteriorate in the near term relative to fiscal 2014, which closed with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level;
- 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 of 64.9% of total governmental fund expenditures and 4.5x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges of 14.5% of expenditures, net direct debt that is 109.7% of total governmental fund revenue, and rapid amortization with 67.2% 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 EBI of 83.5% 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 to 4,500), United School District No. 501 (2,000 to 2,999), and the U.S. Government (1,000 to 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. 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.

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. The city's five-year 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, which 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 the city's long-term financial plan, it aims to sustain reserves at 15% of general fund expenditures, which as of fiscal year-end 2014 it exceeded.

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 our anticipation that budgetary results could deteriorate somewhat from 2014 results in the near term.

Fiscal 2014 was a very positive year for the city. Property tax revenue was up 14%, 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 at 2.0% and is currently up (7.5% through February); sales tax growth is projected at 1.0% and was more than 5.0% through July. The city utilizes 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% to 5% lower than budgeted. On the revenue side, officials budget conservatively on sales tax revenue. During the past four years the city has averaged approximately 2.2% annual sales tax increases. This forecast trends out a 1% overall increase, which, given commercial activity, we anticipate the city will outperform in both fiscal 2015 and fiscal 2016.

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.

Since fiscal 2010, the city's general fund balance has fluctuated somewhat as a result of weakness in the local economy. Management has set a policy goal of reaching 15% of expenditures in the general fund by fiscal 2018 and sustaining that level. Conservative budgeting practices coupled with overperforming revenue have allowed the city to reach this policy-driven goal well before the target date.

Given the city's clear goal of reaching 15% of expenditures, it could see stronger performance should management and council choose to increase levies and fees in subsequent fiscal years.

Very strong liquidity

In our opinion, Topeka's liquidity is very strong, with total government available cash of 64.9% of total governmental fund expenditures and 4.5x 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 debt as well as 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 109.7% of total governmental fund revenue. Approximately 67.2% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

As part of the state's defined benefit retirement plan, the Kansas Public Employees' Retirement System (KPERs), 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. 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.

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

Strong institutional framework

The institutional framework score for Kansas 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 view of the city's strong reserves, strong budgetary performance, and adequate debt and contingent liability profile. If continued economic development leads to higher income and wealth levels, we could raise the rating. Conversely, should budgetary flexibility weaken to historical levels, we could revise the outlook to stable.

Related Criteria And Research

Related Criteria

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

Related Research

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

Ratings Detail (As Of August 14, 2015)

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

Ratings Detail (As Of August 14, 2015) (cont.)

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

Many issues are enhanced by bond insurance.

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