S&P Global
Ratings

RatingsDirect®

Summary:

Topeka, Kansas; General Obligation; Note

Primary Credit Analyst:
Stephen Doyle, New York + 1 (214) 765 5886; stephen.doyle@spglobal.com

Secondary Contact:
Kristin Button, Dallas + 1 (214) 765 5862; kristin.button@spglobal.com

Table Of Contents

Summary:

Topeka, Kansas; General Obligation; Note

Credit Profile		
US$16.995 mil GO imp bnds ser 2022-B due 08/15/2037		
Long Term Rating	AA/Stable	New
US$5.335 mil GO temp renewal and imp nts ser 2022B due 10/01/2023		
Short Term Rating	SP-1+	New
Topeka GO		
Long Term Rating	AA/Stable	Affirmed
Topeka GO		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating and stable outlook to Topeka, Kan.'s roughly $16.9 million series 2022-B general obligation (GO) improvement bonds and affirmed its 'AA' long-term rating, with a stable outlook, on the city's existing GO debt.

S&P Global Ratings also assigned its 'SP-1+' short-term rating to the city's roughly $5.3 million series 2022-B GO temporary renewal and improvement notes and affirmed its 'SP-1+' short-term rating on the city's existing GO temporary notes.

Topeka's full-faith-and-credit pledge, including an unlimited ad valorem property tax pledge, secures the GO bonds. For certain GO debt, Topeka pledges special assessment taxes levied against real property in the city that benefited from certain improvements. The city also pledges incremental property tax revenue derived in certain tax increment financing districts, as well as state sales tax revenue and tax revenue generated within Heartland Park motorsports redevelopment district. While the city intends to pay debt service from these other revenue sources, we rate the bonds to the city's GO pledge because we lack sufficient information to assess the other pledges.

The short-term rating reflects our view of the city's long-term rating and low market-risk profile, including the authority to issue take-out debt, coupled with the availability of pertinent disclosure information. State law requires the authorization of long-term GO debt before the issuance of temporary notes. Temporary notes are a GO of the city, secured by a pledge of its full faith credit and resources.

We understand that officials will use the series 2022-B bond proceeds to fund capital projects, while the series 2022-B note proceeds will fund capital improvements and renew and retire a portion of the series 2021-A temporary notes.

Credit overview

Topeka's role as a northeast Kansas economic hub and vital retail center supports the local economy and provides stability. The city's consistently growing operating revenues and very strong financial management support a trend of balanced operations. During the COVID-19 pandemic, management quickly adjusted the budget where necessary to ensure that the general fund balance did not decrease materially. We expect that budgetary performance will likely remain relatively stable due to management's desire to maintain reserves above its policy. Therefore, we do not expect to change our rating during the next few years. While the city's debt profile is weak, consistent debt issuance and manageable pension obligations provide for stable carrying charges.

The rating reflects our opinion of the city's:

- Growing local economy, anchored by state government employment;
- Very strong financial management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology, and a strong institutional framework;
- Stable operating performance and reserves, supported by consistent operating revenue growth and conservative expenditure budget assumptions; and
- Weak debt burden with additional debt plans and increasing pension and other postemployment benefit (OPEB) costs that will be pressured by rising inflation in the coming years.

Environmental, social, and governance

We have analyzed the city's environmental, social, and governance factors relative to the economy, financial management, budgetary performance, budgetary flexibility, and debt and liability profile and have determined that all are neutral in our credit analyses. Severe weather that results in floods, wind, tornadoes, or hail presents the greatest environmental threat to Topeka; however, we understand that the city's public works and utility teams include flood-mitigation designs for new projects and existing infrastructure upgrades where possible.

Stable Outlook

Downside scenario

We could lower the rating if Topeka's economy were to deteriorate substantially or if budgetary performance were to weaken, resulting in available fund balance we consider just strong.

Upside scenario

With all else equal, we could raise the rating if economic indicators were to improve and be sustained at levels we consider comparable with those of higher-rated peers.

Credit Opinion

Growing local economy that benefits from its position as the state capital

Topeka, 60 miles west of Kansas City, Mo., serves as the state's capital and Shawnee County's seat. The city's tax base is expected to grow annually moving forward due to additional development and property value increases. The retail sector, which accounts for about 58.5% of local sales tax collections, draws a large population from outside the city.

Leading employers include:

- Kansas government (8,050 employees);
- Stormont-Vail Health Care (3,900);
- Shawnee County Unified School District No. 501 (2,100);
- Goodyear Tire & Rubber Co. (2,000); and
- Blue Cross Blue Shield of Kansas (1,600).

Current economic developments include:

- Walmart Inc.'s construction of a $200 million, 1.8-million-square-foot distribution center, which is projected to create more than 300 full-time positions;
- Mars Wrigley's $175 million investment in its Topeka operations, which was recently announced and will add an estimated 100 jobs; and
- Topeka Foundry & Iron Works' downtown business expansion project that will bring roughly $5 million of capital investment for additional equipment and 75 new jobs during the next five years.

Economic projects in Shawnee County but outside Topeka's boundaries that will likely have an effect on the city's economy include:

- Hill's Pet Nutrition's plans to build a facility with $31.4 million in capital investment; the project will create 33 jobs; and
- HME (Haas Metal Engineering) Inc.'s plans for a business expansion project that will bring 167 jobs to the community during the next five years. This project will also include $6 million in capital facilities and equipment investments.

Strong financial management practices and policies that incorporate ongoing and long-term trends

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

Financial management practices include short- and long-term historical trend analysis and the use of independent sources, such as Kansas' consensus revenue forecasting, to project budgeted revenue and expenditures. Management regularly monitors budget performance and provides monthly written reports to the city council and quarterly reports on budget-to-actual financial results to the council and public. Topeka maintains multiyear financial revenue and expenditure forecasts that identify troublesome trends and provide budget feedback.

Management also maintains a 10-year capital improvement plan that outlines projects with corresponding funding sources, and which it reviews annually. Investment and debt management policies reflect statutory limitations and city-specific metrics. Management prepares monthly investment reports, including holdings and earnings, for the council.

A formal debt management policy limits new GO borrowing, among other things; the governing body annually reviews debt. A formal reserve policy calls for maintaining an unassigned fund balance equal to 15% of general fund revenue. As part of its long-term financial plan, Topeka aims to sustain unassigned reserves at 20% of general fund revenue.

Stable budgetary performance supported by growing operating revenues and conservative budget assumptions

We have adjusted for what we view as recurring transfers into the general fund with capital spending from grants and debt financing. The city has historically exhibited at least adequate financial performance due to conservative budgeting and growing property tax and sales tax bases. As of fiscal 2021, sales taxes represent 45% of total governmental activities revenue, while property taxes generate 32%.

For fiscal 2021, the city is projecting balanced operations in the general fund, maintaining current reserve levels. Sales taxes continue to outpace the budget while operating expenditures are favorable, continuing the typical trend for the city. We expect that performance across all governmental funds will likely be similar to historical results going forward. However, certain headwinds could require close monitoring or future budget adjustments to maintain this trend. Rising inflation and staffing shortages have led to increased commodity and contractual employment expenses, although these costs are offset by current vacancies and lower-than-budgeted personnel costs. The city has an aggressive recruitment effort underway to address the staffing shortage, including tactics such as providing childcare and relocation assistance.

For fiscal 2022, the city made no major budget adjustments and expects to maintain stable or positive operating performance based on conservative expenditure assumptions and growing operating revenues. Topeka benefits from a dedicated half-cent citywide sales tax for infrastructure, which the electorate recently renewed until October 2029. In addition, the city receives funds from a half-cent countywide sales tax that expires in 2031, which it primarily uses for economic development and quality-of-life improvements.

Available reserves remain in line with the city's fund balance policy of a minimum of 15% of general fund revenue. For fiscal 2021, sales taxes continued to outperform the budget and reserves are expected to remain in line with the prior year or increase slightly. There are no plans to reduce available reserves going forward and the city expects to remain in compliance with its formal fund balance policy of a minimum of 15% of operating expenditures. Thus, we believe budgetary flexibility will likely remain very strong during the two-year outlook.

We expect that cash will likely remain very strong during the next two fiscal years. The city has neither variable rate debt nor swaps in its portfolio nor any obligations that would challenge near-term liquidity.

High debt burden with additional debt plans

Total direct debt is roughly $477 million, including $299 million in self-supported utility revenue debt, which we did not include in our debt calculations. We understand that officials currently plan to issue roughly $44 million of additional GO debt within the next three years. Due to this, we expect that the debt and contingent liability profile will likely remain weak during the next two years.

OPEB and pension highlights

We do not view pension and OPEB liabilities as an immediate credit pressure because required contributions currently make up a small portion of total governmental expenditures.

As of June 30, 2021, the latest measurement date, Topeka participated in Kansas Public Employees' Retirement System (KPERS), which was 76% funded, with a net pension liability equal to $63 million. The state actuarially determines contributions, and the city has historically funded annual required costs in full.

Actuarial assumptions include a 7.25% discount, which we view as aggressive, representing market risk and resulting in contribution volatility if KPERS fails to meet assumed investment targets. In addition, contributions are likely to grow due to level-payroll funding rather than level-dollar contributions, which would result in consistent payments.

Topeka's self-funded health plan is a single-employer plan for retiree health benefits. Retirees can remain on the city plan if they pay the monthly premium. Once the retiree drops coverage, however, they forfeit their right to it afterwards. The city offers major-medical health insurance and prescription coverage to employees and retirees. Officials finance the current plan on a pay-as-you-go basis; retirees pay the same premium as active employees. Topeka does not contribute to the plan.

Topeka also has a KPERS-administered, multiple-employer, defined-benefit OPEB plan that provides long-term disability and life insurance benefits for disabled KPERS members. Officials administer the plan on a pay-as-you-go basis. We do not expect pension and OPEB costs to be a budgetary pressure during the next few fiscal years.

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.

Topeka, Kan.: Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Adequate economy				
Projected per capita EBI % of U.S.	75.1			
Market value per capita ($)		67,707		
Population		125,060	125,727	126,928
County unemployment rate (%)		3.1		
Market value ($000)		8,467,388	8,146,325	7,920,969
Ten largest taxpayers % of taxable value	13.4			
Strong budgetary performance				
Operating fund result % of expenditures		4.9	4.0	(0.7)
Total governmental fund result % of expenditures		13.8	7.3	3.1
Very strong budgetary flexibility				
Available reserves % of operating expenditures		27.9	24.6	22.9
Total available reserves ($000)		26,379	22,126	21,641
Very strong liquidity				
Total government cash % of governmental fund expenditures		157.4	141.4	115.2
Total government cash % of governmental fund debt service		985.3	1,125.5	844.8
Very strong management				
Financial Management Assessment	Strong			

Topeka, Kan.: Key Credit Metrics (cont.)	Most recent	Historical information		
		2021	2020	2019
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		16.0	12.6	13.6
Net direct debt % of governmental fund revenue	99.2			
Overall net debt % of market value	5.1			
Direct debt 10-year amortization (%)	57.6			
Required pension contribution % of governmental fund expenditures		7.4		
OPEB actual contribution % of governmental fund expenditures		0.7		
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of July 18, 2022)		
Topeka GO		
Long Term Rating	AA/Stable	Affirmed
Topeka GO		
Long Term Rating	AA/Stable	Affirmed
Topeka GO bnds taxable		
Long Term Rating	AA/Stable	Affirmed
Topeka GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
Topeka GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
Topeka GO temp renewal and imp nts ser 2022B due 10/01/2023		
Short Term Rating	SP-1+	Affirmed
Topeka GO temp renewal & imp nts		
Short Term Rating	SP-1+	Affirmed
Topeka GO (MBIA)		
Unenhanced Rating	AA(SPUR)/Stable	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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.