S&P Global Ratings

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Summary:

Topeka, Kansas; General Obligation; Note

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Credit Profile		
US$39.035 mil GO temp nts ser 2019-A dtd 09/10/2019 due 12/31/2020		
Short Term Rating	SP-1+	New
US$36.145 mil GO Bnds ser 2019-A dtd 09/10/2019 due 08/15/2034		
Long Term Rating	AA/Stable	New
US$3.66 mil GO temp nts ser 2019-B (taxable) dtd 09/10/2019 due 10/01/2020		
Short Term Rating	SP-1+	New
US$1.44 mil GO bnds (Zoo Project) ser 2019-B dtd 09/10/2019 due 08/15/2034		
Long Term Rating	AA/Stable	New
Topeka GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' long-term rating and stable outlook to Topeka, Kan.'s series 2019A and 2019B general obligation (GO) 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 series 2019A and 2019B GO temporary 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. In addition, for certain GO debt, and including the series 2019A bonds, the city pledges special-assessment taxes levied against real property in the city that has 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 the 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.

We understand management will use series 2019A and 2019B bond proceeds to fund general municipal improvements, Topeka Zoo improvements, and retire a portion of the city's series 2018A temporary notes.

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 take-out GO debt before the issuance of temporary notes. Temporary notes are a GO of the city, secured by its full-faith-credit-and-resources pledge.

We understand officials will use series 2019A and 2019B note proceeds to fund general municipal improvements, retire and renew portions of the city's series 2018A temporary notes, and retire and renew the city's series 2018B temporary notes.

We expect the city's role as a northeast Kansas economic hub and vital retail center will continue to support Topeka's sales tax base, which supports its major revenue source. We also expect the city's 80.3% projected per capita effective buying income will likely constrain the rating by weakening our overall assessment of the city's economy.

The long-term rating reflects our opinion of Topeka's:

- Adequate economy, with projected per capita effective buying income at 80.3% of the national level and market value per capita of $61,642, that benefits 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 a slight operating surplus in the general fund and an operating surplus at the total governmental-fund level in fiscal 2018;
- Very strong budgetary flexibility, with available fund balance in fiscal 2018 at 24% of operating expenditures;
- Very strong liquidity, with total government available cash at 118.2% of total governmental-fund expenditures and 9.3x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt-and-contingent-liability position, with debt service carrying charges at 12.7% of expenditures and net direct debt that is 127.8% of total governmental-fund revenue, as well as rapid amortization, with 69.4% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Topeka's economy adequate. The city, with an estimated population of 127,007, is in Shawnee County in the Topeka MSA, which we consider broad and diverse. The city has a projected per capita effective buying income at 80.3% of the national level and per capita market value of $61,642. Overall, market value was stable during the past year at $7.8 billion in fiscal 2019. County unemployment was 3.5% in 2018.

Topeka, 60 miles west of Kansas City, Mo., serves as the state's capital and Shawnee County's seat. Leading employers include:

- Kansas government (8,320 employees),
- Stormont-Vail Health Care (3,611),
- Shawnee County Unified School District No. 501 (2,459),
- Westar Energy (2,400), and
- Midwest Health (2,000).

Other leading employers include BNSF Railway Co., Kansas Army & Air National Guard, Goodyear Tire & Rubber Co., and Blue Cross Blue Shield of Kansas. Unemployment has historically been below the national average. The leading taxpayers are diverse and account for a modest 13.5% of the total property tax base. The retail sector draws a large population from outside the city.

Officials report ongoing development continues citywide. Recently completed projects include an $86.5 million expansion for Reser's Fine Foods and a $6 million rehabilitation project for a new job training center in East Topeka. Projects currently under construction or recently announced include:

- A $100 million mixed-use development under construction with multifamily units, hotels, a movie theater, and restaurants in southwest Topeka;
- A $20 million capital investment by Hills Pet Nutrition for a 36,000-square-foot expansion; and
- The city council's recently approved renovation and expansion of two underperforming retail centers in southwest Topeka for $18 million and $31 million, respectively.

Very strong management

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

Topeka's financial management practices include short- and long-term historical trend analysis and 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, as well as the public. The city maintains multiyear financial revenue and expenditure forecasts that identify troublesome trends and provide feedback for the current budget.

Management also maintains a 10-year capital improvement plan (CIP). The CIP outlines projects with corresponding funding sources. Management reviews the CIP 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 policy limits new GO borrowing, among other things; the governing body annually reviews debt. A formal reserve policy calls for maintaining unassigned fund balance equal to 15% of general fund revenue. However, as part of the city's long-term financial plan, it aims to sustain unassigned reserves at 20% of general fund revenue.

Strong budgetary performance

Topeka's budgetary performance is strong, in our opinion. The city had slight surplus operating results in the general fund at 1.1% of expenditures and surplus results across all governmental funds at 4.3% in fiscal 2018. General fund operating results have been stable during the past three fiscal years with 0.4% of expenditures in fiscal 2017 and 1.7% in fiscal 2016.

We have adjusted for, what we view as, recurring transfers into the general fund with capital spending from grants and debt financing. Officials largely attribute fiscal 2018 results to expenditures being $3.3 million underbudget due mainly to budgeted vacancies throughout the year and lower-than-expected expenses in contractual services. For fiscal 2019, management expects no-worse-than-breakeven operations. In addition, officials currently expect the council will adopt the proposed, balanced fiscal 2020 budget. Therefore, we expect budgetary performance will likely remain strong during the next two fiscal years.

In fiscal 2018, sales taxes generated 42% of total governmental-fund revenue while property taxes generated 32% and franchise fees accounted for 11%. Topeka benefits from a dedicated half-cent citywide sales tax for infrastructure needs, which voters 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.

Very strong budgetary flexibility

Topeka's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2018 at 24% of operating expenditures, or $21.9 million. During the past three fiscal years, total available fund balance remained consistent overall at 23% of expenditures in fiscal 2017 and 23% in fiscal 2016.

Topeka has historically maintained very strong reserves. Available reserves remain above the formal reserve policy, maintaining, at least, 15% of general fund revenue. Due to current trends, we expect very strong budgetary flexibility will likely continue during the next few fiscal years. Officials expect balanced general fund operations for fiscal years 2019 and 2020 with no plans to draw down reserves significantly, which we expect will support very strong budgetary flexibility.

Very strong liquidity

In our opinion, Topeka's liquidity is very strong, with total government available cash at 118.2% of total governmental-fund expenditures and 9.3x governmental debt service in fiscal 2018. In our view, the city has strong access to external liquidity if necessary.

We expect cash will likely remain very strong during the next two fiscal years. It has neither variable-rate debt nor swaps in its portfolio nor any obligations that would challenge near-term liquidity. Investments are limited to pools and investments such as certificates of deposit and U.S. treasuries and agencies, as prescribed by Kansas law. Topeka demonstrates its strong access to external liquidity through its consistent ability to access capital markets through routine GO- and revenue-supported debt issuance.

Adequate debt-and-contingent-liability profile

In our view, Topeka's debt-and-contingent-liability profile is adequate. Total governmental-fund debt service is 12.7% of total governmental-fund expenditures, and net direct debt is 127.8% of total governmental-fund revenue. About 69.46% of direct debt is scheduled to be repaid within 10 years, not including principal maturing Aug. 15, 2019, which is, in our view, a positive credit factor.

In April 2019, the council temporarily increased the GO-debt-authorization cap to $33 million for 2020-2022 from $27 million to take advantage of favorable market conditions. We expect officials will likely issue roughly $11 million of new-money debt in fiscal 2020; we, however, do not consider this a significant enough amount to weaken our assessment of the city's debt-and-contingent-liability profile. We, however, note our view of the city's debt could weaken if additional debt issuance were to result in scheduled repayments over 10 years decreasing below 65%.

The city does not have any direct-purchase obligations with acceleration provisions or transmittal risk in its portfolio. It, however, has traditional fixed-rate GO and revenue debt.

Topeka's combined required pension and actual other-postemployment-benefits (OPEB) contribution totaled 6.6% of total governmental-fund expenditures in fiscal 2018. The city made its full annual required pension contribution in fiscal 2018.

As part of Kansas Public Employees' Retirement System (KPERS), the state's defined-benefit retirement plan, Topeka fulfills its annual required contribution (ARC). The city has historically contributed 100% of its ARC during the past three fiscal years, and it does not expect ARC-related cost pressure. The combined required contribution for local employees, police, and firefighters was $10.1 million in fiscal 2018. At Dec. 31, 2018, the local plan's fiduciary net position was 74.2% funded while the police and firefighters' plan was 71.5% funded.

Topeka's health plan is self-funded. The city has a single-employer plan for retiree health benefits. Retirees can continue with the city plan and pay the monthly premium. However, once the retiree drops coverage, they forfeit their right to future coverage. 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. The city 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. In fiscal 2018, Topeka contributed $301,970 toward the OPEB plan. 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.

Outlook

The stable outlook on the long-term rating reflects S&P Global Ratings' opinion it will likely not change the rating during the two-year outlook period. We expect Topeka will likely maintain very strong budgetary flexibility and liquidity, supported by very strong management. We also think the city's economy will likely continue to benefit from its roles as northeast Kansas' economic hub and a vital retail center. In addition, the outlook reflects our expectation Topeka's additional bonding will likely not weaken debt materially.

Upside scenario

All else being equal, we could raise the rating if economic indicators were to improve to, and be sustainable at, levels we consider comparable with higher-rated peers.

Downside scenario

While unlikely during the outlook period, we could lower the rating if Topeka were to experience substantial economic deterioration or if budgetary performance were to weaken, resulting in available fund balance we would consider just strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of August 7, 2019)		
Topeka taxable GO temp nts		
Short Term Rating	SP-1+	Affirmed
Topeka GO		
Long Term Rating	AA/Stable	Affirmed
Topeka GO temp renewal and imp nts		
Short Term Rating	SP-1+	Affirmed
Topeka GO (MBIA)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Topeka GO		
Long Term Rating	AA/Stable	Affirmed
Topeka GO		
Long Term Rating	AA/Stable	Affirmed
Topeka GO		
Long Term Rating	AA/Stable	Affirmed
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Long Term Rating	AA/Stable	Affirmed
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Long Term Rating	AA/Stable	Affirmed
Topeka GO		
Long Term Rating	AA/Stable	Affirmed
Topeka GO		
Long Term Rating	AA/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.