S&P Global Ratings

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Summary:

Wyandotte County/Kansas City Unified Government, Kansas; Appropriations; General Obligation; General Obligation Equivalent Security

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Table Of Contents

Summary:

Wyandotte County/Kansas City Unified Government, Kansas; Appropriations; General Obligation; General Obligation Equivalent Security

Credit Profile		
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global ratings affirmed its 'AA' rating on the Wyandotte County/Kansas City Unified Government, Kan.'s GO and GO-equivalent debt, and affirmed its 'AA-' long-term rating on the unified government's appropriation debt. The outlook on all ratings is stable.

The unified government's (UG) full-faith-and-credit pledge, including an unlimited-ad valorem-property-tax pledge, secures its GO debt.

Lease-rental payments paid by the unified government to the Wyandotte County/Kansas City Unified Government Public Building Commission (PBC) secure the PBC's revenue bonds. The unified government's obligation of rentals payable under the lease for its entire term are specifically exempt from portions of the provisions of Kansas' cash-basis and budget laws, and are not subject to annual appropriation, early cancellation, or termination. However, the unified government's obligation to levy ad valorem taxes to make rental payments under the lease is subject to the tax lid applicable to Kansas cities and counties. The rating on the PBC's debt reflects our application of our linked rating criteria, "titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Jan. 22, 2018, on RatingsDirect. We rate the PBC bonds on par with the GO bonds, as we do not differentiate between the unlimited lease appropriation pledge and the unified government's general creditworthiness.

The unified government's series 2010H special obligation annual appropriation bonds are rated one notch below the GO rating due to our view of annual appropriation risk pursuant to our linked rating criteria.

The 'AA' GO rating reflects our opinion of the unified government's:

- Weak economy, with projected per capita effective buying income at 61.5% of the national level and market value per capita of $54,216, that advantageously gains 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 break-even results at the total-governmental-fund level in fiscal 2017;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 57.5% of total-governmental-fund expenditures and 2.7x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt-and-contingent-liability position, with debt service carrying charges at 21.2% of expenditures and net direct debt that is 199.2% of total-governmental-fund revenue, as well as high overall net debt at greater than 10% of market value and a large pension and other-postemployment-benefit (OPEB) obligation; and
- Strong institutional framework score.

Weak economy

We consider the UG's economy weak. Wyandotte/Kansas City, with an estimated population of 165,236, is in the Kansas City MSA, which we consider broad and diverse. The city-county has a projected per capita effective buying income of 61.5% of the national level and per capita market value of $54,216. Overall, market value has grown by 2.1% over the past year to $9 billion in fiscal 2018. The county unemployment rate was 5.2% in 2017.

We consider the UG's economy weak despite its participation in the broad and diverse Kansas City MSA, which brings area residents into the UG, due mainly to projected per capita effective buying income and per capita market value. While the UG's employment base is diversifying into a mix of manufacturing, retail, and services from a predominately industrial job base, resident income is still lower than national averages. Management partially attributes this to strong government presence, including the UG and Wyandotte County Unified School District No. 500, as well as the lower-end positions associated with University of Kansas Hospital and University of Kansas Medical Center. We believe these factors somewhat depress income. Furthermore, in our opinion, modest projected employment growth over the next three years indicates the potential for a somewhat stronger economy than what our initial assessment reflects.

The UG's tax base is expanding. Assessed value (AV) has increased by 6.1% over the past three fiscal years. Notable recent developments include a $310 million Amazon distribution center that employs 5,500. Dairy Farmers of America completed a $34 million project that relocated its national headquarters to the UG. UG officials report the U.S. national soccer training and development center is nearing completion, at which point it will become the area's largest regional entertainment; retail; and sports complex, further strengthening the UG's role as a regional hub.

Very strong management

We view the UG'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 management's:

- Use of extensive planning and analysis to devise revenue and expenditure assumptions based on historical trend analysis;
- Quarterly reports on budget-to-actual results to the UG commission, coupled with a proven willingness to make
- intrayear corrections to improve structural budget gaps;
- Formal financial planning, forecasting five years out, which it reviews and updates annually;

- Five-year, annually updated capital improvement plan that addresses project needs and resources and that it discloses in the budget document for transparency;
- Formal investment-management policy that parallels state regulations and calls for quarterly reports to elected officials that outline holdings and performance;
- Formal debt-management policy that follows the state's 30% debt limit, requires the chief financial officer to manage and monitor debt, targets annual debt service at 10%-12% of the total budget authority of tax-levied funds, targets a minimum 3% net present value savings for GO debt refundings and does not consider the use of derivatives, and limits any variable-rate debt to projects backed by project revenue; and
- Reserve policy that equals 10% of general fund expenditures based on cash-flow needs and unexpected events (while reserves have decreased to less than the 10% target in some years and have been somewhat inconsistent, we believe the UG has restored reserves to appropriate levels within a reasonable period).

Strong budgetary performance

The UG's budgetary performance is strong, in our opinion. The city-county had surplus operating results in the general fund of 4.6% of expenditures, and balanced results across all governmental funds of 0.4% in fiscal 2017.

We have adjusted for routine transfers and debt-financed capital spending. We expect budgetary performance to remain strong over the next two fiscal years. Lower expenditures contribute to these results. The UG has a history of conservative budgeting, and it tends to come in under budget. Fiscal 2017 ended with a 4.6% ($8.9 million) general fund operating surplus due largely to savings in professional services and capital expenditures, which helped offset increased overtime costs in public-safety expenses. The unified government experienced positive results across all governmental funds as well in the amount of $1.1 million, or 0.4% of total governmental fund expenditures.

The fiscal 2018 budget includes a 2-mill reduction to property taxes, the lost revenue of which AV growth will make up. Since officials did not use any reserves to balance the budget, and due to the UG's history of maintaining fiscal balance, we expect performance will likely remain strong over the next two fiscal years.

Very strong budgetary flexibility

The UG's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 21% of operating expenditures, or $40.9 million.

Four consecutive surpluses have allowed the UG to build and maintain very strong reserves. While the UG budgets $5 million-$7 million of pay-as-you-go capital spending, often budgeting reserves for one-time expenditures through budget variances or reduced spending, it has not needed to spend reserves for these expenses. For example, although the fiscal 2017 budget included appropriated reserves for capital spending, year-end results show that the UG actually added $9.2 million to fund balance, increasing reserves to about $40.9 million, or roughly 21% of estimated expenditures. With the UG's history of structural balance and better-than-budgeted results, we expect reserves will likely remain very strong. Officials also expect available fund balance to remain stable in fiscal 2018.

Very strong liquidity

In our opinion, the UG's liquidity is very strong, with total government available cash at 57.5% of total-governmental-fund expenditures and 2.7x governmental debt service in fiscal 2017. In our view, the city-county has exceptional access to external liquidity if necessary.

The UG's frequent issuance of GO, revenue, and sales tax bonds during the past 15 years supports our view of its exceptional access to external liquidity. Investments primarily include certificates of deposit held with local banks and federal agency securities, which we do not view as aggressive. We also understand the UG does not have exposure to any contingent liabilities. We expect the UG's liquidity to remain very strong and stable over the next two fiscal years.

Very weak debt-and-contingent-liability profile

In our view, the UG's debt-and-contingent-liability profile is very weak. Total-governmental-fund debt service is 21.2% of total-governmental-fund expenditures, and net direct debt is 199.2% of total-governmental-fund revenue. Negatively affecting our view of the city-county's debt profile is its high overall net debt of 10.7% of market value.

We consider principal debt amortization about average with officials planning to retire about 50% over 10 years, excluding temporary notes outstanding. Officials report they currently plan to issue $12 million-$14 million in GO debt over the next two years, which we do not believe will materially change our view of its overall debt profile.

In our opinion, the UG's large pension and OPEB obligation is a credit weakness. The UG's combined required pension and actual OPEB contribution totaled 9% of total-governmental-fund expenditures in fiscal 2017. Of that amount, 7.7% represented required contributions to pension obligations and 1.3% represented OPEB payments. The UG made 94% of its annual required pension contribution in fiscal 2017. The funded ratio of the largest pension plan is 67.1%. While the UG is managing these costs, we believe these costs could become a credit risk. We will continue to monitor whether management's actions to address these costs are sufficient to manage the long-term liabilities.

The UG provides retiree benefits through the Kansas Public Employees' Retirement System (KPERS), a cost-sharing, multiple-employer, defined-benefit pension plan. Within KPERS, the state prepares actuarial valuations to determine the actuarial determined contribution rate by pension group. The UG participates in the local KPERS group and the Kansas Police & Firemen's Retirement System group.

State law defines required employer contributions to the plans, which might not be equal to the actuarial recommendation. The UG pays 100% of its required contribution. However, these contributions fell short of the actuarially determined contribution for fiscal 2017, which could result in declining funded ratios or accelerating payments. The fiduciary net position, as a percent of the total pension liability, as defined in Governmental Accounting Standards Board Statement No. 67, for KPERS was 67.1% at fiscal year-end 2017. The UG recently revised some actuarial assumptions such as reducing the discount rate to 7.7% from 8% and reducing payroll growth to 3% from 4%. While we view these changes positively, we expect that employer contributions will likely increase and that the plan's funded ratio could deteriorate over the next few fiscal years because of the modified assumptions. UG officials report that they have factored these increasing contributions into their long-term financial plans and that they do not expect budgetary pressure.

The UG also provided benefits for employees of the Kansas City Board of Public Utilities (KCBPU) through the board's retirement pension plan. Total contributions of 8.5% of annual compensation from plan members and the board, as established by the board of pension trustees, fund the KCBPU plan. In fiscal 2017, KCBPU contributed $4.3 million to the plan and reported a net pension liability of $20.4 million at fiscal year-end 2017. The plan's fiduciary net position, as a percent of the total pension liability, was 96.9% at Dec. 31, 2016.

The UG also provides OPEB--including medical, dental, and vision benefits--to eligible retirees and their dependents. It funds these benefits on a pay-as-you-go basis. In fiscal 2017, it paid $4.03 million for OPEB. The UG reported an OPEB liability of $84.5 million at fiscal year-end 2017. Officials report they are exploring options, including establishing an OPEB trust fund, to aid in prefunding OPEB.

Strong institutional framework

The institutional framework score for the UG is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that the UG will likely maintain its very strong liquidity and, at least, strong budgetary flexibility, supported by very strong management, during the two-year outlook period. We believe the economic benefits the UG gains from its role as a joint contributor of the broad and diverse Kansas City MSA further stabilize the rating. Therefore, we do not expect to raise or lower the rating during the next two years.

Downside scenario

We could lower the rating if the UG's high fixed costs associated with pensions, OPEB, and debt service were to increase materially or if the budget were to face stress, resulting in deteriorating reserves. We could also lower the rating if the unified government's economic metrics decline to levels more comparable to lower-rated peers.

Upside scenario

We could raise the rating if the UG's economic metrics were to improve significantly, coupled with the maintenance of, what we consider, very strong reserves and strong budgetary performance.

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
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017

Ratings Detail (As Of July 18, 2018)		
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of July 18, 2018) (cont.)		
Wyandotte Cnty / Kansas City Unif Govt GO imp bnds		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO (BAM) (SECMKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt (Recovery Zone Fac Bnds-Parking Projs)		
Long Term Rating	AA-/Stable	Affirmed
Unif Govt of Wyandotte Cnty/Kansas City Pub Bldg Comm, Kansas		
Wyandotte Cnty / Kansas City Unif Govt, Kansas		
Unif Govt of Wyandotte Cnty/Kansas City Pub Bldg Comm GOEQUIV		
Long Term Rating	AA/Stable	Affirmed
Unif Govt of Wyandotte Cnty/Kansas City Pub Bldg Comm GOEQUIV		
Long Term Rating	AA/Stable	Affirmed
Unif Govt of Wyandotte Cnty/Kansas City Pub Bldg Comm (Wyandotte Cnty / Kansas City Unif Govt) rev bnds (Wyandotte Cnty / Kansas City Unif Govt) (Cour		
Long Term Rating	AA/Stable	Affirmed
Unif Govt of Wyandotte Cnty/Kansas City Pub Bldg Comm (Wyandotte Cnty / Kansas City Unif Govt) rev bnds (Wyandotte Cnty / Kansas City Unif Govt) (Juve		
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.