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

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Rationale

S&P Global Ratings assigned its 'AA' rating to the Wyandotte County/Kansas City Unified Government (UG), Kan.'s series 2020-A general obligation (GO) improvement bonds and its 'SP-1+' rating to its series 2020-I municipal temporary notes. S&P Global Ratings also assigned its 'AA' rating to the Wyandotte County/Kansas City Unified Government Public Building Commission (PBC), Kan.'s series 2020-A revenue bonds (juvenile justice facility), series 2020-B revenue bonds (courthouse and adult jail facility), and series 2020-C revenue bonds (health department building). At the same time, S&P Global Ratings affirmed its 'AA' rating on the UG's GO and GO-equivalent debt, and affirmed its 'AA-' long-term rating on its appropriation debt. The outlook on all ratings is stable.

Security and use of proceeds

The UG's full-faith-and-credit pledge, including an unlimited ad valorem property tax pledge, secures its GO debt. The short-term rating reflects our view of the long-term rating and UG's low market risk profile, including the authority to issue takeout debt, as well as the availability of pertinent disclosure information. State law requires the authorization of long-term takeout GO debt before the issuance of temporary notes. The temporary notes are a GO of the UG, secured by its full-faith-credit-and-resources pledge.

We understand proceeds of the series 2020-A GO bonds will finance certain public improvement projects within the UG. Proceeds of the series 2020-I temporary notes will be used to pay a portion of the cost of certain public improvement projects and to pay capitalized interest on the notes.
Lease rental payments paid by the UG to the PBC secure the revenue bonds. The UG’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. The series 2020-A, series 2020-B, and series 2020-C PBC issues are subject to Kansas tax lid law, limiting the power of cities and counties to levy property taxes. Despite these limitations, we consider resources fungible, and the ability to manage them supports our view of the obligor’s ability and willingness to repay the debt. Based on application of our criteria “Issue Credit Ratings Linked To U.S. Public Finance Obligors’ Creditworthiness,” (published Nov. 20, 2019), we rate the PBC bonds on par with the GO bonds, as we do not differentiate between the unlimited-lease appropriation pledge and the UG’s general creditworthiness.

We understand the series 2020-A bond proceeds will be used to pay the costs associated with improvements to the new juvenile justice facility and associated surface parking lots. Series 2020-B bond proceeds will be used to finance improvements to the existing courthouse and adult jail facility. Series 2020-C bond proceeds will be used to make certain capital improvements to the existing health department building, with an emphasis on improvements to the roof, HVAC system, elevators, plumbing, electrical, and other operating systems within the building.

The UG's series 2010-H special obligation annual appropriation bonds are rated one notch below the GO rating, reflecting our view of annual appropriation risk pursuant to our ratings linked criteria.

**Credit overview**

The rating reflects the strength of the UG's management team, which has demonstrated a history of conservative budgeting practices leading to actual results outperforming budgeted assumptions. The strength of the UG's financial performance is particularly notable given its relatively high fixed costs related to debt and pension liabilities. The rating also reflects that, while the UG's economy is considered weak relative to peers because of its lower-than-average wealth and income indicators, there has been steady growth and expansion of the tax base in recent years, which is likely to continue as a variety of economic development projects and redevelopment initiatives are currently underway.

The ‘AA’ GO rating reflects our opinion of the following credit factors:

- Weak economy, with projected per capita effective buying income (EBI) at 60.0% and market value per capita of $57,102, that is gaining advantage 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 slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 80.8% of total governmental fund expenditures and 4.6x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability profile, with debt service carrying charges at 17.7% of expenditures and net direct debt that is 260.8% 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. The UG, with an estimated population of 165,329, is located in the Kansas City, MO-KS MSA, which we consider broad and diverse. It has a projected per capita EBI of 60.0% of the national level and per capita market value of $57,102. Overall, the UG's market value grew by 4.5% over the past year, to $9.4 billion in fiscal 2020. The county unemployment rate was 4.8% in 2018.

We consider the UG's economy weak, despite its participation in the broad and diverse Kansas City MSA, mainly because of the relatively low values for projected per capita EBI and per capita market value compared with national averages. The UG's tax base is diverse, with the top 10 taxpayers making up 14% of total assessed value (AV) in fiscal 2020, consisting of entertainment, retail, utility, and manufacturing entities.

Employment is also diverse, with major employers including:

• Amazon Fulfillment Center (more than 5,000 employees),
• University of Kansas Health Systems (more than 5,000),
• University of Kansas Medical Center (3,500),
• Unified School District No. 500 of Kansas City (4,000), and
• Cerner Corp. (3,500).

Total AV has grown about 20% between fiscal years 2016 and 2020, or about 4% annually on average, attributable to commercial, retail, and residential development. Management expects continued growth ranging from 5% to 7% for the next few years. Officials report many economic development projects are underway, including a University of Kansas downtown campus with a health center focus, new industrial and distribution facilities, and a Hard Rock Hotel scheduled to open in summer 2021, as well as several mixed-use retail and multifamily residential projects. Management reports that the commission is focused on redevelopment of the downtown area and blight reduction programs, which could also contribute to growth in property values in the future.

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, partly based on historical trend analysis and the use of priority-based budgeting.
• Quarterly reports on budget-to-actual results to the UG commission, coupled with a proven willingness to make intra-year corrections to improve structural budget gaps.
• Formal financial planning, that includes five-year forecasts of revenues and expenditures, reviewed and updated annually.
• Comprehensive five-year capital improvement plan that includes project details, costs, and funding sources,
annually updated and disclosed in budget documents to increase 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 outlines allowable debt types and structures. The policy requires the chief financial officer to manage and monitor debt, targets a minimum 3% net present-value savings for GO debt refundings, does not consider the use of derivatives, and limits any variable-rate debt to revenue-generating projects or capital assets. For GO debt, the policy requires the UG to strive to maintain debt per capita and debt as a percent of AV at a low-to-moderate classification, as generally viewed by the municipal bond market. For general fund-supported debt, the policy targets the debt ratio to be below 10% of total general fund expenditures and to target the combined debt ratio and pension/OPEB ratio below 25% of total general fund expenditures.

- Reserve policy that requires an available fund balance equal to at least 17% of general fund expenditures.

**Strong budgetary performance**

The UG's budgetary performance is strong, in our opinion. The UG had slight operating surpluses of 1.0% of expenditures in the general fund and of 0.6% across all governmental funds in fiscal 2018.

We have adjusted our ratios for recurring transfers into the general fund and debt-financed capital spending. The strong performance in fiscal 2018 is partly the result of management's conservative budgeting practices and new sales tax revenues from the early redemption of STAR bonds offsetting a two-mill property tax levy reduction. In fiscal 2018, property tax revenues accounted for 40% of general revenues, followed by sales tax at 27%. Both of which have been historically reliable revenue sources for the UG.

For unaudited fiscal 2019, officials estimate the UG ended the year with a slight operating surplus of 0.4%, or $800,000. The fiscal 2020 budget reflects the use of $4.2 million in fund balance, but we expect actual performance to be closer to break-even by year-end, supported by the UG's conservative budgeting, which typically results in capital spending and personnel expenses coming in below budget. Across all governmental funds, the UG has a strong history of experiencing positive results, which we expect to continue. As a result, we believe the UG's budgetary performance will remain strong over the next two years.

**Very strong budgetary flexibility**

The UG's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 20% of operating expenditures, or $39.9 million.

The UG has consistently maintained very strong budgetary flexibility in each of the past three fiscal years, with available fund balance growing from $30.1 million, or 16.9% of general fund expenditures, in fiscal 2015 to $39.9 million, or 21.0% of expenditures, in fiscal 2018. The UG has a formal reserve policy of maintaining a fund balance equal to at least 17% of operating expenses, which it has historically met. Taking into account expected results for fiscal years 2019 and 2020, we believe the available fund balance should remain very strong, exceeding the policy target.

**Very strong liquidity**

In our opinion, the UG's liquidity is very strong, with total government available cash at 80.8% of total governmental fund expenditures and 4.6x governmental debt service in fiscal 2018. In our view, the UG 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, various repurchase agreements, and federal agency securities, which we do not view as aggressive. We understand the UG privately placed $1.4 million of its series 2019-C GO bonds to support the downtown grocery project. Bond terms are standard and do not contain any unusual provisions, such as acceleration, that could pressure liquidity. 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 17.7% of total governmental fund expenditures, and net direct debt is 260.8% of total governmental fund revenue. Negatively affecting our view of the UG's debt profile is its high overall net debt of 12.5% of market value.

We understand officials plan to issue $13 million to $15 million in GO debt annually over the next three years to address capital needs.

In our opinion, a credit weakness is the UG's large pension and OPEB obligation. The combined required pension and actual OPEB contributions totaled 9.5% of total governmental fund expenditures in fiscal 2018. Of that amount, 8.2% represented required contributions to pension obligations and 1.3% represented OPEB payments. While the UG is managing these costs, we believe they could become a credit risk, and we will continue to monitor their impact, if any, on overall financial performance.

The UG participates in the Kansas Public Employees' Retirement System (KPERS) and the Kansas Police and Firemen Retirement System (KP&F), both of which are cost-sharing, multiple-employer, defined-benefit pension plans administered by the state. In fiscal 2018, the UG contributed $5.5 million to KPERS and $13.4 million to KP&F, for a total of $18.9 million. For fiscal 2018, the reported net pension liability was $50.8 million for KPERS and $122.4 million for KP&F.

State law defines required employer contributions to the plans, which might not be equal to the actuarially determined contribution (ADC). The UG pays 100% of its required contribution. Based on legislation passed in 1993, the employer contribution rates certified by the KPERS' board of trustees for this group may not increase by more than the statutory cap, which for the state fiscal year 2018 was 1.2%. The fiduciary net position for KPERS, as a percent of the total pension liability, as defined in Governmental Accounting Standards Board Statement No. 67, was 68.9% at fiscal year-end 2018. Actuarial assumptions include a 7.75% discount rate, which we view as aggressive, representing market risk and resulting in contribution volatility if the plan fails to meet assumed investment targets. In addition, contributions are likely to grow because of level payroll funding, rather than level-dollar contributions, which would result in consistent payments.

The UG also provides benefits for employees of the Kansas City Board of Public Utilities (KCBPU) through the board's 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. The UG's KCBPU net pension asset was $22.5 million and its fiduciary net position as a percent of total pension liability was 104.5% at fiscal year-end 2018.
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. The UG reported an OPEB liability of $78 million at fiscal year-end 2018.

Strong institutional framework
The institutional framework score for unified governments in Kansas is strong is strong.

Outlook
The stable outlook reflects our opinion that the UG will maintain its strong budgetary performance and very strong budgetary flexibility, supported by strong management policies and practices. Additional rating stability is provided by the UG's participation in the Kansas City MSA, which we consider to be broad and diverse. We do not expect to change the rating within the two-year outlook period.

Upside scenario
We could raise the rating if the UG's economic indicators improve to levels we consider comparable with those of higher-rated peers, and the UG's debt and pension profile improves.

Downside scenario
We could lower the rating if the UG experiences financial pressures--stemming from its elevated debt and pension liabilities or otherwise--that result in structural budget imbalance or sustained declines in reserves.

Related Research
• S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
• Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
• Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
• 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of February 11, 2020)

| Wyandotte Cnty / Kansas City Unif Govt (Recovery Zone Fac Bnd-Parking Projs) APPROP | AA-/Stable | Affirmed |
| Wyandotte County Kansas City Unified Government Public Building Commission, Kansas |
| Wyandotte Cnty / Kansas City Unif Govt, Kansas |
| Unif Govt of Wyandotte Cnty/Kansas City Pub Bldg Comm GOEQUIV | AA/Stable | Affirmed |
| Unif Govt of Wyandotte Cnty/Kansas City Pub Bldg Comm GOEQUIV | 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.