

CREDIT OPINION

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 Rate this Research

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Unified Govt. of Wyandotte Co./Kansas City,KS

Update to credit analysis

Summary

The credit profile of the [Unified Government of Wyandotte County/Kansas City, KS](#) (UG, A1 stable) benefits from a large and growing tax base that is favorably located near employment centers in [Johnson County, KS](#) (Aaa stable) and [Kansas City, MO](#) (Aa3 stable). Further, operating reserves are sound and in line with the national A1 median and they should remain stable given a formal policy and a history of conservative budgeting. Credit challenges include below average income levels and large debt and pension burdens that are contributing to elevated fixed costs. The debt profile will continue to grow given significant future debt plans to support economic development, address deferred maintenance and comply with a sewer enterprise EPA consent decree.

Credit strengths

- » Stable operating reserves at sound levels
- » Large tax base that serves as a regional economic center
- » Strengthened financial policies

Credit challenges

- » Elevated fixed costs comprised of outsized debt and pension burdens
- » Extensive ongoing capital needs associated with deferred maintenance and sewer EPA consent decree
- » Below average resident income levels

Rating outlook

The stable outlook reflects the expectation that continued economic expansion, utility rate increases and bolstered financial policies will enable the UG to maintain balanced operations over the near term and will help to provide the necessary revenue to afford increasing debt service.

Factors that could lead to an upgrade

- » Substantial decline in debt and pension burdens leading to material reduction of fixed costs
- » Trend of significantly improved operating reserves

Factors that could lead to a downgrade

- » Further leveraging of the tax base, either via debt or growth of pension obligations
- » Material decline in operating reserves
- » Trend of tax base contraction or loss of major taxpayer

Key indicators

Exhibit 1

Unified Govt. of Wyandotte Co./Kansas City,KS

	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$7,762,145	\$7,994,973	\$8,293,973	\$8,946,180	\$9,440,555
Population	149,755	151,042	152,069	152,522	152,522
Full Value Per Capita	\$51,832	\$52,932	\$54,541	\$58,655	\$61,896
Median Family Income (% of US Median)	68.7%	69.0%	70.0%	69.0%	69.0%
Finances					
Operating Revenue (\$000)	\$258,854	\$242,850	\$245,768	\$255,707	\$238,423
Fund Balance (\$000)	\$49,025	\$63,320	\$60,249	\$86,896	\$81,845
Cash Balance (\$000)	\$45,216	\$55,431	\$78,054	\$76,981	\$74,881
Fund Balance as a % of Revenues	18.9%	26.1%	24.5%	34.0%	34.3%
Cash Balance as a % of Revenues	17.5%	22.8%	31.8%	30.1%	31.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$568,412	\$595,791	\$659,512	\$626,178	\$605,598
3-Year Average of Moody's ANPL (\$000)	\$455,516	\$454,578	\$475,676	\$486,803	\$546,732
Net Direct Debt / Full Value (%)	7.3%	7.5%	8.0%	7.0%	6.4%
Net Direct Debt / Operating Revenues (x)	2.2x	2.5x	2.7x	2.4x	2.5x
Moody's - ANPL (3-yr average) to Full Value (%)	5.9%	5.7%	5.7%	5.4%	5.8%
Moody's - ANPL (3-yr average) to Revenues (x)	1.8x	1.9x	1.9x	1.9x	2.3x

Sources: US Census Bureau, Unified Govt. of Wyandotte Co./Kansas City,KS's financial statements and Moody's Investors Service

Profile

The Unified Government of Wyandotte County/Kansas City is the state's third largest metro area with an estimated population of 169,000. The government serves as a regional employment center for manufacturing, transportation, healthcare and retail

Detailed credit considerations

Economy and tax base: large, stable tax base serves as regional economic center

Commercial, industrial and multifamily residential development will continue to drive tax base expansion over the next several years. The UG reports that eleven large projects are currently underway - including retail, hotel, distribution center and apartments - and collectively total about \$1.7 billion and should add over 4,000 new jobs. The largest project is Homefield, a \$700 million sports and recreation complex that will include retail shops and a hotel. The project should be complete around 2027 and there will be a 10 year PILOT agreement to smooth out property tax payments, which will provide a predictable and stable revenue source for the UG. The UG will issue STAR bonds for this project, as discussed in the debt section of this report.

Over the past five years, the tax base has expanded an average of 5.1% annually, including a 5.4% increase in fiscal 2021 to a sizable \$9.9 billion (derived from an assessed valuation of \$1.4 billion).

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The 10 largest taxpayers account for 12% of assessed value and are diversified across various sectors, with Legends Shopping Center (2.3% of assessed valuation), General Motors (2%) and Kansas Entertainment, LLC (1.3%), a casino development, comprising the largest taxpayers.

Resident income levels are below average with a median family income equal to 70% of the state and nation; however, the cost of living is commensurate with a median home value equal to 44% of the US and 63% of the state. The unemployment rate is now lower than it was before the pandemic; the UG's rate of 3% is slightly higher than the state's 2.2% but lower than the national rate of 3.7% (December 2021). The labor force has grown 11% since 2019.

Financial operations and reserves: better than expected fiscal 2020 performance; reserves will remain stable and in line with formal policy

Financial reserves will remain healthy because of a history of conservative budgeting and adherence to a formal policy. Fiscal 2020 audited results (December 31 year-end) came in better than expected, with the general fund posting a \$3.3 million surplus. This brought available fund balance to \$45.6 million or 21.9% of revenue. The UG has a formal policy to maintain a reserve of two months (17%) of budgeted expenditures and transfers out, and the general fund balance at the end of 2020 is equal to 22.3% of budgeted expenses and transfers out. The UG has a target to maintain an additional one-month in reserve for emergencies or catastrophic events, though it did meet this target in 2020.

Available operating fund balance (general and debt service funds) declined by \$5 million to \$81.8 million, which is a healthy 34.3% of total revenue and is in line with the national A1 median.

Fiscal 2021 general fund balance is likely to grow by about \$19 million, largely driven by federal stimulus aid but also from stronger than expected sales and use tax revenue. Because the aid was received in the latter part of the fiscal year, the UG will incur the related expenses in fiscal 2022, leading to a deficit. The federal aid will be used to finance nonrecurring projects and expenses. Fiscal 2022 fund balance is likely to decline to about 20%, which is consistent with fiscal 2019.

Liquidity

Cash will remain stable and in line with fund balance. The UG closed fiscal 2020 with \$74.9 million in operating fund cash, representing 31.4% of operating revenue.

Debt and pensions: high debt burden and fixed costs weigh on the credit profile

The debt burden will remain high given future debt plans, though it will remain manageable given expected tax base growth, enterprise support and planned enterprise rate increases. The debt burden is 6.4% of fiscal 2021 full valuation, which is well above peers. About 40% of the outstanding GOULT debt and 54% of the temporary notes is for storm and sewer projects and debt service is expected to be paid with revenue from the enterprise funds.

The UG reports that none of the outstanding sales tax debt with an appropriation pledge has required non-sales tax support to meet debt service requirements. Pressures on these revenue which necessitate support from the government for debt service could stress its financial position.

The UG will issue long-term GOULT debt to permanently finance the \$49 million Municipal Temporary Notes, Series 2022-I when the projects are completed. And over the next three years, the UG will issue \$13-15 million in GOULT debt annually to fund various capital projects. In addition, the UG plans to issue up to \$150 million of STAR bonds for the Homefield project, which will be paid with sales tax revenue. The first issuance of \$130 million is likely to be issued this spring. Finally, the EPA consent decree will cost about \$950 million to \$1 billion, which will be paid for with debt over the next 25 years. The UG plans to raise rates 3-5% annually, though the EPA settlement agreement ties rate increases to Median Household Income to ensure affordability. The debt model and planned rate increases will be updated every five years.

Legal security

The GOULT bonds are general obligations of the UG and are payable from ad valorem property taxes which may be levied without limitation as to rate or amount upon all taxable tangible property, real and personal, within the territorial limits of the UG, excluding the incorporated areas of Bonner Springs, Edwardsville and Lake Quivira, and excluding the unincorporated areas of the UG.

Debt structure

All debt is fixed rate and matures over the long term (exclusive of the temporary notes that mature in April 2023); final maturity on long-term debt occurs in 2042. About 60% of principal is retired within 10 years.

Debt-related derivatives

The UG is not party to any interest rate swaps or other derivative agreements.

Pensions and OPEB

The Unified Government participates in two statewide cost-sharing defined benefit pension plans, the Kansas Public Employees Retirement System (KPERs) and Kansas Police and Fireman's Retirement System (KP&F). The UG has consistently made its required contributions to the plan in accordance with statutory requirements. We determine the UG's share of liability for the cost-sharing plans administered under KPERs in proportion to its contributions to the plan.

Moody's three year average adjusted net pension liability (ANPL) is \$546.7 million or 229% of fiscal 2020 2019 operating revenue and 5.8% of full value, which are well above the national medians. Moody's adjusted net OPEB liability (ANOL) is \$168.5 million or 71% of revenue and 1.8% of full value.

Fiscal 2020 fixed costs, inclusive of debt service as well as pension and OPEB contributions, were \$70.2 million, representing an elevated 29.4% of operating revenue. The pension contributions were above "tread water" in fiscal 2020 by approximately \$2 million, representing 0.9% of operating revenue. The "tread water" indicator measures the annual government contribution required to prevent the reported NPL from growing, under reported assumptions. Contributions above this level cover all NPL interest plus pay down some principal, making them stronger from a credit perspective than contributions below this level.

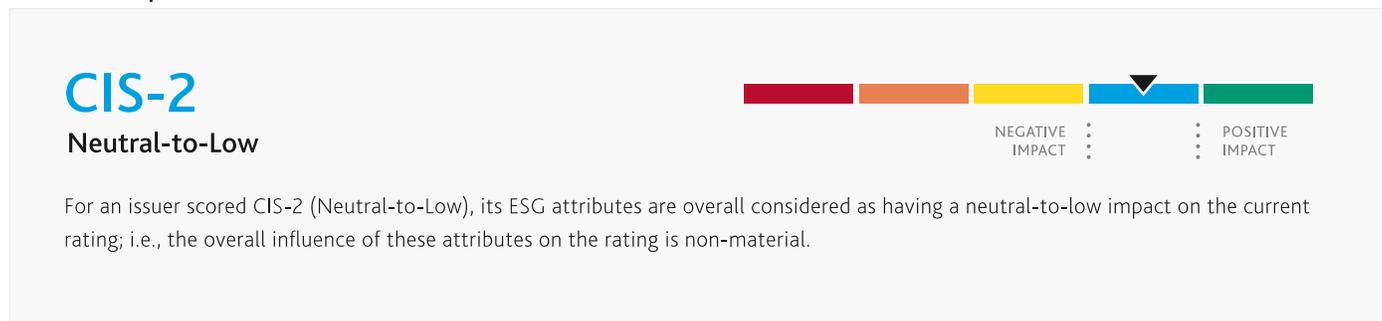
The pension plans' high discount rate is likely to require increasing contributions. We expect that the UG will adequately incorporate rising pension costs into its budget while maintaining operational balance.

ESG considerations

UNIFIED GOVERNMENT OF WYANDOTTE COUNTY/KANSAS CITY, KS' ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 2

ESG Credit Impact Score



Source: Moody's Investors Service

The Unified Government of Wyandotte County/Kansas City, Ks' ESG Credit Impact Score is neutral to low (**CIS-2**), reflecting low exposure to environmental and social risks, and good governance.

Exhibit 3

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

The unified government's overall E issuer profile score is neutral to low (**E-2**), reflecting relatively low exposure to environmental risks across all categories, including physical climate risks, carbon transition, water management, natural capital and waste and pollution risks.

Social

We assess the S issuer profile score as neutral-to-low (**S-2**), reflecting relatively low exposure to social risks across all categories, including demographics, labor and income, education, housing, health and safety, and access to basic services. Population and the labor force have been growing modestly, though income levels are well below the US median, like other large urban centers. Housing is affordable and residents have easy access to basic services.

Governance

The unified government's G issuer profile score is neutral-to-low (**G-2**), reflecting strong institutional structure as well as established policies and timely disclosure of budgets and audited financial statements which provide a good level of transparency. The unified government also maintains long-term financial forecasting, has prudent budget management, and has demonstrated policy credibility and effectiveness.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on [Moody's.com](https://www.moodys.com). In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 4

Unified Govt. of Wyandotte Co./Kansas City,KS

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$9,949,604	Aa
Full Value Per Capita	\$65,234	Aa
Median Family Income (% of US Median)	69.0%	Baa
Finances (30%)		
Fund Balance as a % of Revenues	34.3%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	13.0%	Aa
Cash Balance as a % of Revenues	31.4%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	14.5%	Aa
Management (20%)		
Institutional Framework	Aaa	Aaa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	6.3%	Baa
Net Direct Debt / Operating Revenues (x)	2.6x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	5.5%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	2.3x	A
Notching Factors: ^[2]		
Other Scorecard Adjustment Related to Debt/Pensions		Down
	Scorecard-Indicated Outcome	A1
	Assigned Rating	A1

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: US Census Bureau, Unified Govt. of Wyandotte Co./Kansas City,KS's financial statements and Moody's Investors Service

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