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Summary:

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

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Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

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

Credit Profile

| | | |
|---|-----------|----------|
| US\$49.035 mil mun temp nts ser 2022-I due 04/01/2023 | | |
| <i>Short Term Rating</i> | SP-1+ | New |
| US\$47.345 mil GO imp bnds ser 2022-A due 08/01/2042 | | |
| <i>Long Term Rating</i> | AA/Stable | New |
| Wyandotte Cnty/Kansas City Unif Govt GO | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Wyandotte County/Kansas City Unified Government (UG), Kan.'s proposed \$47.3 million series 2022-A general obligation (GO) improvement bonds and its 'SP-1+' short-term rating to the UG's \$49 million series 2022-I municipal temporary notes. 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 the UG's appropriation debt. The outlook, where applicable, is stable.

The UG's full-faith-and-credit pledge, including an unlimited ad valorem property tax pledge, secures the GO debt. The short-term rating on the temporary notes 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 general obligation of the UG, secured by its full-faith-credit-and-resources pledge. The series 2022-A GO bonds will provide permanent financing to several completed capital projects, while the series 2022-I temporary notes will fund the planning, design, and construction of various capital improvements.

Lease rental payments paid by the UG to the Public Building Commission (PBC) secure the UG's GO-equivalent debt. 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. 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 UG's general creditworthiness given the lack of appropriation risk and no other extraordinary risks associated with the lease structure.

The UG's 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 that of 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 underway. In addition, while not an immediate credit pressure, we believe the UG's very weak debt profile and large pension and other postemployment benefits (OPEB) liability will remain limiting credit factors for the foreseeable future. Therefore, we do not expect to change the rating during the two-year outlook period.

The rating also reflects our view of the UG's:

- Participation in the broad-and-diverse Kansas City metropolitan statistical area (MSA) with a diverse mix of economic development and redevelopment. However, property wealth and income metrics remain below-average relative to peers;
- Very strong management, with strong financial policies and practices and a strong institutional framework;
- Sizable fiscal 2021 general fund surplus and federal stimulus funds allowing for one-time capital investments while maintaining a very strong fund balance above the UG's fund balance target; and
- Very weak debt burden with an above-average amortization rate and modest additional debt plans. Pension and OPEB contributions are not an immediate credit pressure, however, we do view the UG's large pension and OPEB liability as a credit weakness.

Environmental, social, and governance

We view the UG's environmental risk as slightly elevated due to the risk of inland flooding because of its proximity to the Kansas and Missouri rivers. However, the UG has an emergency management plan in place, outlining specific tasks and protocols should an event occur, as well as very strong reserves to minimize any one-time service disruptions or budgetary effects. In addition, the U.S. Army Corps of Engineers has an ongoing \$529 million project to improve the levee and floodwalls in the Kansas City MSA. All of which help to mitigate the elevated inland flooding risk, in our view. We view the UG's social and governance risks as in line with those of the sector.

Stable Outlook

Upside scenario

We could raise the rating if the UG's economic indicators improve to levels that we consider comparable with those of higher-rated peers, along with improvement in the UG's debt and pension profile, while the UG maintains very strong reserves.

Downside scenario

We could lower the rating if persistent operating deficits lead to the UG's reserves falling below its policy level and are not replenished within a reasonable timeframe.

Credit Opinion

Participant in the Kansas City MSA with ongoing economic development, however, income and property wealth metrics remain below average

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 effective buying income and per capita market value compared with national averages. The UG's tax base is diverse, with the top 10 taxpayers making up 10.9% of total assessed value (AV) in fiscal 2022, consisting of entertainment, retail, utility, and manufacturing entities.

Employment is also diverse, with major employers including:

- University of Kansas Health Systems (more than 8,500 employees);
- Unified School District No. 500 of Kansas City (more than 3,500);
- University of Kansas Medical Center (3,500); and
- Amazon Fulfillment Center (more than 3,000).

Total AV grew about 23.0% over the past five years, or about 4.7% annually on average, attributable to commercial, retail, and residential development. Management expects continued growth tied to ongoing development projects across the county. Officials report many economic development projects are underway, including a mix of new industrial and distribution facilities, 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 boost future growth in property values.

Very strong management with comprehensive policies and long-term planning

Highlights include management's:

- Use of extensive planning and analysis to devise revenue and expenditure assumptions, partially 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, which includes five-year forecasts of revenue 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 CFO 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% (two months) of general fund expenditures. In the event that reserves are used, resulting in a balance below the two-month minimum, the policy requires a plan to be developed to replenish reserves and included in the formulation of the five-year forecast presented during the annual budget process.
- We note that the UG has implemented policies and practices to help mitigate its exposure to cyber-security risks.

Sizable fiscal 2021 operating surplus and federal stimulus funds help fuel one-time projects while maintaining very strong reserves

Despite the revenue pressures posed by the pandemic, fiscal 2020 general fund results were positive due to resilient tax revenue and expenditure offsets made possible by CARES Act funding. We note that we made various data adjustments to fiscal 2020 results, particularly for recurring transfers, capital outlay funded with bond proceeds, and debt service payments related to the issuance of refunding bonds. Across total governmental funds, property taxes accounted for about 38% of revenue followed by sales tax collections at 27%.

Preliminary year-end results for fiscal 2021, show a sizable general fund surplus of \$19 million (8.3% of expenditures), fueled by better-than-budgeted tax revenue and about \$21 million in American Rescue Plan Act (ARP) funding. Officials estimate that this will bring the general fund balance to about 29% of expenditures and transfers, well above the UG's 17% minimum. Using the robust surplus generated in the previous fiscal year to make one-time capital investments, the UG's fiscal 2022 adjusted estimate shows a \$13 million general fund drawdown. Therefore, while we anticipate the UG will spend down reserves closer to 20% of expenditures, we expect its available fund balance and cash position will remain very strong, and for budgetary performance to be at least adequate, accounting for the one-time capital spending. We note that while the UG's 2019-C GO bonds are privately placed, the documents do not contain any provisions such as acceleration that we view as a potential liquidity risk.

Very weak debt profile with better-than-average amortization rate and modest additional debt plans

The UG's total direct debt is approximately \$1.4 billion, including enterprise revenue debt from the Board of Public Utilities. Our ratios have been adjusted to exclude utility revenue-secured revenue debt and GO bonds supported by the UG's enterprise funds. We understand officials plan to issue \$13 million-\$15 million in GO debt annually to address capital needs. As a result, we expect the debt profile to remain very weak for the next few years but not to materially worsen, given the UG's above-average amortization rate.

Large pension and OPEB liability but costs not an immediate credit pressure

We view the UG's large pension and OPEB liability as a credit weakness given the relatively poor funding status of the largest pension plan. However, we do not expect pension and OPEB contributions will be an immediate credit pressure, as contributions currently compose a relatively manageable proportion of the budget and the UG has sufficient budgetary flexibility, in our view, to absorb a modest increase in contributions.

The UG participates in the following plans:

- Kansas Public Employees' Retirement System (KPERs), which is 66% funded with a \$215 million net pension liability.

- Kansas City Board of Public Utilities (KCBPU) pension plan, which is 101% funded with a \$7.2 million net pension asset.
- OPEB plan, which is funded on a pay-as-you-go and has a total OPEB liability of \$131 million.

For KPERS, although the UG funds 100% of its actuarially determined contribution, fiscal 2020 actual contributions fell short of minimum funding progress. However, contributions did exceed our static funding metric, making some funding progress. In general, we expect progress toward full funding will be slower given the plan's amortization basis of level percent using a payroll growth assumption of 2.75%, over a closed period of 15-24 years. Furthermore, we believe KPERS' discount rate of 7.5% could lead to some contribution volatility.

Strong institutional framework

The institutional framework score for Kansas unified governments is strong.

| Wyandotte County/Kansas City Unified Government, Kan.--Key Credit Metrics | | | | |
|---|-------------|------------------------|---------|---------|
| | Most recent | Historical information | | |
| | | 2020 | 2019 | 2018 |
| Weak economy | | | | |
| Projected per capita EBI % of U.S. | 62.7 | | | |
| Market value per capita (\$) | 62,321 | | | |
| Population | | 166,272 | 166,871 | 165,329 |
| County unemployment rate(%) | | 7.8 | | |
| Market value (\$000) | 10,362,313 | 9,493,213 | | |
| Ten largest taxpayers % of taxable value | 10.9 | | | |
| Adequate budgetary performance | | | | |
| Operating fund result % of expenditures | | 0.5 | 1.1 | 1.0 |
| Total governmental fund result % of expenditures | | (4.6) | (1.2) | 0.6 |
| Very strong budgetary flexibility | | | | |
| Available reserves % of operating expenditures | | 22.9 | 20.3 | 19.8 |
| Total available reserves (\$000) | | 45,558 | 42,262 | 39,894 |
| Very strong liquidity | | | | |
| Total government cash % of governmental fund expenditures | | 57.4 | 68.1 | 80.8 |
| Total government cash % of governmental fund debt service | | 301.3 | 331.0 | 457.7 |
| Very strong management | | | | |
| Financial Management Assessment | Strong | | | |
| Very weak debt and long-term liabilities | | | | |
| Debt service % of governmental fund expenditures | | 19.0 | 20.6 | 17.7 |
| Net direct debt % of governmental fund revenue | 234.4 | | | |
| Overall net debt % of market value | 11.5 | | | |
| Direct debt 10-year amortization (%) | 60.7 | | | |
| Required pension contribution % of governmental fund expenditures | | 7.0 | | |

Wyandotte County/Kansas City Unified Government, Kan.--Key Credit Metrics (cont.)

| | Most recent | Historical information | | |
|--|-------------|------------------------|------|------|
| | | 2020 | 2019 | 2018 |
| OPEB actual contribution % of governmental fund expenditures | | 0.4 | | |

Strong institutional framework

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

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
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of February 18, 2022)

| | | |
|---|------------|----------|
| Wyandotte Cnty / Kansas City Unif Govt taxable spl oblig annual approp rfdg bnds ser 2020D due 12/01/2031 | | |
| <i>Long Term Rating</i> | AA-/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |

Ratings Detail (As Of February 18, 2022) (cont.)

| | | |
|---|-----------------|----------|
| Wyandotte Cnty / Kansas City Unif Govt GO (ASSURED GTY) | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO (BAM) | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO (BAM) | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO (BAM) | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO (BAM) | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO (BAM) (SECMKT) | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt GO | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Wyandotte Cnty/Kansas City Unif Govt GO (BAM) (SECMKT) | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Wyandotte County Kansas City Unified Government mun temp notes ser 2021-I due 04/01/2022 | | |
| <i>Short Term Rating</i> | SP-1+ | Affirmed |
| Wyandotte County Kansas City Unified Government mun temp nts ser 2022-I due 04/01/2023 | | |
| <i>Short Term Rating</i> | SP-1+ | Affirmed |
| Wyandotte County Kansas City Unified Government GO imp bnds | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Wyandotte County Kansas City Unified Government Public Building Commission, Kansas | | |
| Wyandotte County Kansas City Unified Government, Kansas | | |
| Wyandotte Cnty / Kansas City Unif Govt Pub Bldg Comm GO | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt Pub Bldg Comm GO (AGM) | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt Pub Bldg Comm GO (AGM) | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Wyandotte Cnty / Kansas City Unif Govt Pub Bldg Comm GO (AGM) | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Wyandotte Cnty/Kansas City Pub Bldg Comm GOEQUIV | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Wyandotte Cnty/Kansas City Pub Bldg Comm (Wyandotte Cnty / Kansas City Unif Govt) GOEQUIV | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Wyandotte Cnty/Kansas City Pub Bldg Comm (Wyandotte Cnty / Kansas City Unif Govt) GOEQUIV | | |
| <i>Long Term Rating</i> | 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

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

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.

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