S&P Global Ratings

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Summary:

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

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Credit Profile		
US$50.26 mil mun temp notes ser 2021-I due 04/01/2022		
Short Term Rating	SP-1+	New
US$45.685 mil GO imp bnds ser 2021-A due 08/01/2041		
Long Term Rating	AA/Stable	New
US$1.925 mil rev bnds (courthouse & adult jail fac) (Wyandotte Cnty Kansas City Unif Gov) ser 2021-A due 08/01/2036		
Long Term Rating	AA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA' rating to the Wyandotte County/Kansas City Unified Government (UG), Kan.'s proposed $45.7 million series 2021-A general obligation (GO) improvement bonds and its 'SP-1+' rating to the UG's $50.26 million series 2021-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 $1.9 million series 2021-A revenue bonds (courthouse and adult jail facility).

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 on all ratings 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 GO of the UG, secured by its full-faith-credit-and-resources pledge.

We understand proceeds of the series 2021-A GO bonds will finance certain public improvement projects within the UG. Proceeds of the series 2021-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 2021-A bonds 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 UG's general creditworthiness given the lack of appropriation risk and no other extraordinary risks associated with the lease structure.

We understand the series 2020-A bond proceeds will be used to pay the costs associated with improvements to the county courthouse and jail facility.

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 currently underway.

We expect challenges associated with COVID-19 and the related recession will pressure the UG's budgets, as they will most local governments', during the next one to two years. In the short term, we expect that overall revenue trends could moderate from the recent past as the economy continues to recover from the recessionary period driven by the pandemic. We believe the recession will test management's ability to maintain very strong reserves during the next few fiscal years. Through targeted expenditure reductions, application of CARES Act funding, and better-than-expected revenue performance, the UG reported nearly breakeven results in fiscal 2020. However, a budgeted use of reserves for the current fiscal year would take reserves to the adopted policy threshold of 17% of expenditures. The UG's minimum two months of expenditures reserve policy has a replenishment feature that requires a plan to be developed should reserves fall below the two-month minimum and included in the formulation of the five-year forecast presented during the annual budget process.

Management will continue to monitor budget-to-actual performance closely and adjust as necessary. We believe budgetary performance could temporarily weaken with a prolonged recession, but management has identified cost-control options that it can utilize in the near term. We also think the UG's core economic structure and participation in the broad and diverse Kansas City metropolitan statistical area (MSA) will likely contribute to overall rating stability. Therefore, we do not expect to change our rating during the outlook horizon.

The 'AA' GO rating also reflects our opinion of the UG's:

- Weak economy, with projected per capita effective buying income at 55.7% and market value per capita of $59,295, though that is advantageously gaining from access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment

(FMA) methodology;

- Weak budgetary performance, with a slight operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 68.1% of total governmental fund expenditures and 3.3x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability profile, with debt service carrying charges at 20.9% of expenditures and net direct debt that is 211.9% 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.

Environmental, social, and governance (ESG) factors

We have analyzed the UG's environmental factors, including health and safety risks posed by COVID-19, coupled with social and governance risks relative to the economy, financial management, budgetary performance, and budgetary flexibility, as well as its debt and liability profile, and have determined all are in line with our view of the sector standard. Tornadoes and flooding are the primary environmental threats to the UG, but the UG has an emergency management plan in place, outlining specific tasks and protocols should an event occur.

Stable Outlook

Downside scenario

We could lower the rating if the UG experiences prolonged financial pressure--stemming from the pandemic-driven recession, its elevated debt and pension liabilities, or otherwise--that results in structural budget imbalance or sustained declines in reserves. In addition, we could lower the rating if reserves were to fall below the UG's policy level and not replenished within a reasonable timeframe or if the UG's budgetary performance is worse than expected.

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, along with improvement in the UG's debt and pension profile, while the UG maintains very strong reserves.

Credit Opinion

Weak economy

The UG, with an estimated population of 166,871, is in the Kansas City, MO-KS MSA, which we consider broad and diverse. The city-county has a projected per capita effective buying income of 55.7% of the national level and per capita market value of $59,295. Overall, the city-county's market value grew by 4.2% over the past year to $9.9 billion in 2021. The county unemployment rate was 4.3% in 2019.

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 13.8% of total assessed value (AV) in fiscal 2021, 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),
- Amazon Fulfilment Center (more than 5,000),
- Unified School District No. 500 of Kansas City (4,000),
- University of Kansas Medical Center (3,500), and
- Cerner Corp. (3,500).

Total AV grew about 25% between fiscal years 2016 and 2021, or about 5% 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 University of Kansas downtown campus with a health center focus and 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.

We understand that none of the UG's major employers closed permanently because of COVID-19 and, although some businesses temporarily shut down, many have reopened. The local unemployment rate peaked at 14.9% in April 2020 before improving to 3.6% in December. For more information on S&P Global Economics' view on the recovering U.S. economy, see "Staying Home For The Holidays," published Dec. 2, 2020, on RatingsDirect.

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, 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 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% (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.

Weak budgetary performance

The UG's budgetary performance is weak in our opinion. The UG had slight surplus operating results in the general fund of 1.1% of expenditures, but a slight deficit result across all governmental funds of 1.2% in fiscal 2019.

Our forward-looking opinion of weak budgetary performance reflects uncertainty concerning the effect and duration of COVID-19 and the related recession on the UG. We have adjusted our ratios for recurring transfers into the general fund and debt-financed capital spending.

The UG's operating performance in fiscal 2019 is partly the result of management's conservative budgeting practices, a $2.7 million increase in property tax revenue, and a $3.4 million increase in general fund sales and use tax. Use taxes represent e-commerce, which is gaining more of the retail market share. In fiscal 2019, property tax revenue accounted for 41% of general revenues, followed by sales tax at 26%. Both have been historically reliable revenue sources for the UG.

Given the potential revenue impact caused by lower economic activity during the COVID-19 pandemic, officials amended the fiscal 2020 budget during the early stages of the pandemic to adjust for a projected 22% loss in sales tax compared with fiscal 2019, which would have resulted in a 5% operating deficit. However, tax revenue proved more resilient than originally anticipated, exceeding the revised revenue estimate by nearly $5.9 million. In addition, the UG was able to offset nearly $7 million in personnel costs with funding from the CARES Act; a portion of the personnel savings were used to fund identified capital needs. Year-end estimates reflect a less than 1% deficit in the general fund for fiscal 2020. For fiscal 2021, the UG is conservatively budgeting for a 2.2% operating deficit but is closely monitoring monthly revenue and expenditure trends. We also expect performance across all governmental funds to be in line with historical trends.

In response to the estimated revenue loss in fiscal 2020, officials identified budgetary options it can utilize, which include the use of general fund emergency reserves, deferral of operating expenditure, debt-finance former general fund cash-funded capital, and realign administrative costs. Near-term budget goals primarily include aligning the UG's revised revenue outlook with the demands of its growing budget to maintain compliance with its formal reserve target.

Very strong budgetary flexibility

The UG's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 20% of operating expenditures, or $42.3 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 20% of expenditures in 2018 and 21% in 2017.

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. Based on preliminary results for fiscal 2020, the combined general fund balance is expected to remain relatively stable at about 20% of expenditures. The adopted fiscal 2021 budget reflects a drawdown of reserves to 17% of expenditures, reflecting a modest revenue recovery as well as ongoing expenditure growth. In addition, the UG's multiyear budget forecast has identified future budget gaps that will need to be managed over the near term in the absence of stronger-than-expected revenue growth. Should reserves fall below its minimum 17% of operating expenditure target, the policy requires a plan to be developed to replenish reserves, which is included in the formulation of the five-year forecast presented during the annual budget process.

Very strong liquidity

In our opinion, the UG's liquidity is very strong, with total government available cash at 68.1% of total governmental fund expenditures and 3.3x governmental debt service in 2019. 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 consist of 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 its series 2019-C GO bonds to support a 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 relatively 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 20.9% of total governmental fund expenditures, and net direct debt is 211.9% of total governmental fund revenue. Negatively affecting our view of the UG's debt profile is its high overall net debt of 11.6% of market value.

The UG's total direct debt is approximately $1.4 billion. 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.

Pension and other postemployment benefits

- In our opinion, a credit weakness is the UG's large pension and OPEB obligation. The combined required pension and actual OPEB contributions totaled 6.8% of total governmental fund expenditures in fiscal 2019. Of that amount, 6.4% represented required contributions to pension obligations and 0.4% represented OPEB payments.
- While the UG is managing these costs, we believe they could become a credit risk, and we will monitor their impact, if any, on overall financial performance.

The UG participates in the following plans:

- As of June 30, 2019, the latest measurement date, the Kansas Public Employees' Retirement System (KPERS), which was 69.9% funded with a $178.2 million net pension liability; and
- As of Dec. 31, 2019, the latest measurement date, Kansas City Board of Public Utilities (KCBPU) pension plan, which was 93.6% funded with a $32.6 million net pension liability.

State law defines required employer contributions to KPERS, which might not be equal to the actuarially determined contribution. 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's fiscal year 2018 was 1.2%.

Benefit and contribution provisions for KCBPU are established by and may only be amended by the Pension Board of Trustees. Contribution rates are determined annually by the board. KCBPU pays a fixed contribution rate, equal to that of the members, currently 8.50% of pensionable earnings.

Actuarial assumptions for KPERS and KCBPU include a 7.75% and 7.5% discount rate, respectively, 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 rise because of level payroll funding, rather than level-dollar contributions, which would result in consistent payments.

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 a net OPEB liability of $99.6 million at fiscal year-end 2019.

Strong institutional framework

The institutional framework score for Kansas unified governments is strong.

Related Criteria And Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 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
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of February 19, 2021)		
Wyandotte Cnty / Kansas City Unif Govt mun temp nts		
Short Term Rating	SP-1+	Affirmed
Wyandotte Cnty / Kansas City Unif Govt taxable spl oblig annual approp rfdg bnds ser 2020D due 12/01/2031		
Long Term Rating	AA-/Stable	Affirmed

Ratings Detail (As Of February 19, 2021) (cont.)		
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
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
Wyandotte Cnty / Kansas City Unif Govt GO (ASSURED GTY)		
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)		
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)		
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		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty/Kansas City Unif Govt GO (BAM) (SECMKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte County Kansas City Unified Government mun temp notes ser 2021-I due 04/01/2022		
Short Term Rating	SP-1+	Affirmed

Ratings Detail (As Of February 19, 2021) (cont.)		
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		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt Pub Bldg Comm GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt Pub Bldg Comm GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt Pub Bldg Comm GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty/Kansas City Pub Bldg Comm GOEQUIV		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty/Kansas City Pub Bldg Comm (Wyandotte Cnty / Kansas City Unif Govt) GOEQUIV		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty/Kansas City Pub Bldg Comm (Wyandotte Cnty / Kansas City Unif Govt) GOEQUIV		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.