Board of Commissioners of the Unified Government of
Wyandotte County and Kansas City, Kansas

From: **Office of the Chief Financial Officer, Debt Administration Team**
RE: **Comparable Study: Unified Government Debt Compared with Other Entities**
Date: **November 2, 2021**

Unified Government Debt and Fixed Costs Study

The Office of Chief Financial Officer has compared the debt and fixed costs burden of the Unified Government to nine (9) comparable municipal entities, eight (8) cities and one (1) consolidated city/county governments. The nine municipalities were chosen based on population and demographic similarity. The results of our analysis, including charts and tables, are provided below.

Credit Standing: Median and Averages Comparison

Standard & Poor's affirmed the AA rating with stable outlook on Unified Government's general obligation (GO) bonds in February 2022, while the rating from Moody's Investor Service is A1 stable outlook or three notches below S&P's. While these rating are investment grade, it leaves room for improvement to reduce future borrowing costs in a rising interest rate environment. Two of the nine studied municipalities have S&P's highest rating at "AAA". The comparison below is from Annual Comprehensive Financial Report (ACFR) data from the comparable entities.

Table 1:

Data Point	Unified Government (12/31/2020)	Unified Government (Policy Goal)	Comparable Entity Median	Comparable Entity Average	Comparable Entity Minimum	Comparable Entity Maximum
S&P Credit Rating (GO)	AA	Have a AA from both S&P and Moody's	AAA (2); AA+ (2)	AA (5)	A+ (lowest)	AAA (highest)
Population	165,743	--	292,657	309,265	126,000 City of Topeka, KS	503,000 Kansas City, MO
Assessed Market Value per Capita	$9,552	--	$20,578	$37,318	$9,552 Unified Govt	$82,913 Omaha, NE
Govtal GO Debt as % of Assessed Market Value	17.9%	Low to moderate level as viewed by the municipal bond market	3.4%	4.6%	0.1% Lincoln, NE	17.9% Unified Govt
Debt Carrying Costs as a % of Total Govtal Expenditures	6.9%	10% of total governmental expenditures	12.6%	12.5%	4.5% City/Co of Columbus, GA	24.2% Des Moines, IA
Govtal GO Govtal Debt Per Capita	$1,713	Low to moderate level as viewed by the municipal bond market	$916	$939	$105 Lincoln, NE	$2,360 Des Moines, IA
Govtal GO Debt Outstanding	$283,941,994	Statutory applicable debt below 30% of assessed value	$337,202,000	$282,064,575	$30.6 M Lincoln, NE	$508.4 M Omaha, NE
GF Fund Balance as a % of Expenditures	22.9%	16.7%	41.7%	45.8%	19.4% Kansas City, MO	95.1% Overland Park, KS

NOTE: One of the nine comparable municipalites are city/county consolidated forms of government (Columbus, GA). The two AAA rated municipalities are Lincoln, NE and Overland Park, KS.The lowest rating at A+ is Cleveland, OH. The Unified Government is the lowest in the assessed market value per capita, the highest in the governmental general obligation debt as a % of assessed market value and the third lowest behind Kansas City, MO and Wichita KS in General Fund balances as a percentage of total expenditures.

How does the Unified Government Stack Up to Median and Average of Observed Municipalities?

This analysis seeks to select municipalities comparable with the Unified Government. One entity with consolidated government was included to allow for the additional services required by more complex organizational structures. The median ***Population*** of the nine governments is 292,657 and the average is 309,265 residents, compared to the Unified Government's population of 165,743. The most populated is Kansas City, MO with 503,000 and smallest is the City of Topeka, KS with 126,000.

The Unified Government is unfavorable compared with the average and median values of the nine comparable municipalities in all except two of the debt metric categories measured in this report, including:

- Assessed Market Value per Capita
- Governmental GO Debt as a % of Assessed Market Value per Capita
- Governmental GO Debt per Capita
- General Fund Balance as a % of Expenditures

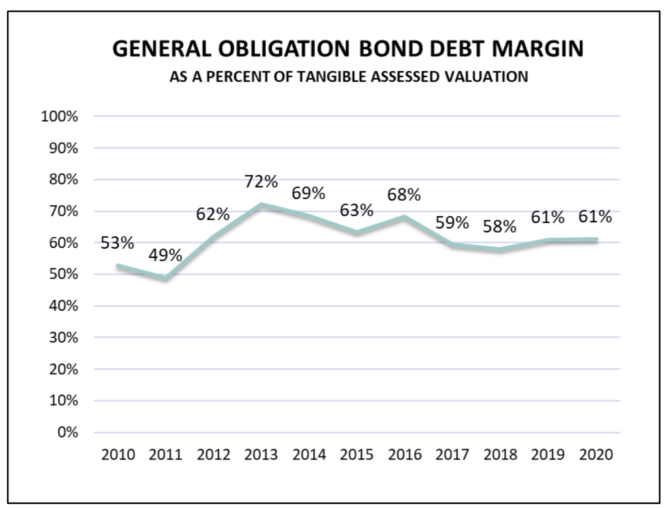
Assessed Market Value per Capita

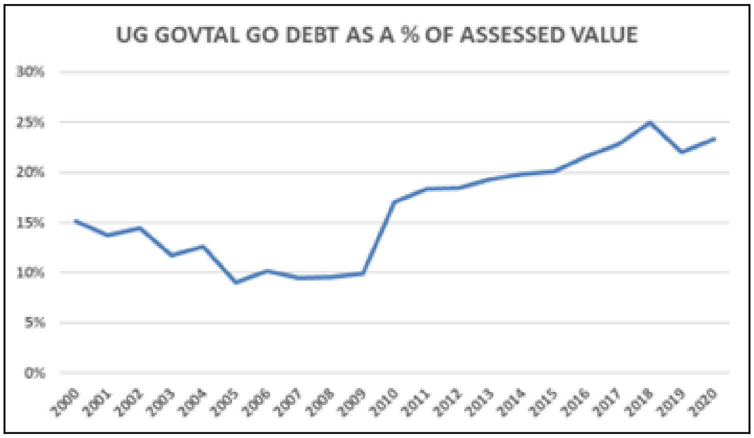
Due to the reliance on general obligation bonds to finance governmental capital investments, the assessed market value of a municipality is important since it is the means for generating ad valorem property tax revenue pledged for debt repayment. ***Assessed Market Value per Capita*** of the selected municipalities ranges from the highest of $82,913 at the Omaha, NE to the lowest of $9,552 at the Unified Government. The median is $20,578 per capita and the average is $37,318. *S&P rating criteria guidance considers $80,000 to $100,000 strong, $55,000 to $80,000 adequate, and below $55,000 as weak.* Property values are relatively low in Kansas compared to other states, with Topeka's assessed value per capita at $10,348 and Wichita's at $9,628, while Overland Park's is higher at $20,578. City of Overland Park's total assessed value at $4.056 billion is 2.5 times greater than the Unified Government's $1.583 billion.

Governmental General Obligation Debt as a % of Assessed Market Value and Kansas Statutory Debt Limit

Governmental general obligation (GO) debt includes only outstanding debt of a government's core services backed by the full faith and credit of the governmental entity. In the FY 2020 ACFR, the Unified Government's total ***governmental general obligation debt outstanding of*** $284 million is 17.9% of total ***taxable assessed market value*** of $1.583 billion, or four times the 4% average of the observed municipalities. ***Governmental General Obligation Debt as a % of Assessed Value*** of the selected municipalities ranges from the lowest of 0.1% at the Lincoln, NE to the highest of 17.9% at the Unified Government. The average is 4.6% of assessed value.

Additionally, the State of Kansas established for the Unified Government a ***State statutory debt limit*** of no more than 30% of Wyandotte County's assessed value (including motor vehicle) and details bonded debt to exclude various debt types from their statutory debt limit calculations. With exempted debt excluded, total adjusted debt outstanding of $290 million is 20% of total assessed value. This lower level of applicable debt constitutes 61% of the 30% of assessed value debt limit of $475 million, an improvement over 2016's 68% of the statutory debt limit as the graph from the Unified Government's 2016 ACFR displays.





The graph on the left displays the UG's governmental debt as a percentage of assessed value since 2000 just after consolidation in 1997. That data shows that the percentage rose during the 2009 Great Recession as the Government both borrowed more and saw a decline in assessed value. Assessed value took nearly a decade to recover to pre-Recession levels, although the capital infrastructure needs of the Government did not diminish. Debt level increased in 2018 with the addition of the County Juvenile Center, but other debt outstanding has declined since then.

Debt Carrying Costs

Carrying Costs burdens – or the costs of debt, pensions, and post-employment benefits – are an especially important fiscal indicator. It is challenging to drastically reduce these costs in the short term without negatively impacting cash-flow or liquidity, which could be seen as a sign of fiscal distress, unless revenue raising, and other cost reduction measures are taken. For the purposes of this report, we have evaluated only annual debt service payments as part of "carrying costs" analysis to measure the level of debt fixed costs given the size of the organization's total costs.

The Government's benchmark policy is to have a ***Debt Carrying Cost*** (annual debt service payments) as a % of Total Governmental Expenditures at or below between 10%, which is a similar target compared with the median and averages of the comparable municipalities range of 12%. The Unified Government's 2020 ACFR lists total governmental funds debt service payments at 6.9% of total governmental expenditures, or 4% points below than our own debt policy target and 5% points below the comparable entities average.

The highest ratio observed was Des Moines, IA, whose Debt Carrying Costs were 24.2% of governmental expenditures, and the lowest is Columbus, GA consolidated government at 4.5% of governmental expenditures.

Governmental GO Debt per Capita

Perhaps the best comparative variable across the observed cities is the amount of ***Governmental GO Debt per Capita***. This ratio was found using the outstanding governmental debt from the most recent ACFRs and census population estimate numbers. The Unified Government had $1,713 in outstanding governmental debt per capita, compared to an average of $939 in the observed municipalities. The highest debt per capita ratio was AA rated Des Moines, IA at $2,360 (with a population of 212,000). The lowest debt per capita ratio was Lincoln, NE at $105 (with a population of 293,000).

Governmental GO Debt Outstanding

While the per capita numbers serve as a good indicator for comparison purposes, the ***Total Governmental GO Debt Outstanding*** figure is also a good indicator of the scope of municipal size. For example, Omaha, NE has a population of 487,300 and $508.4 million in governmental GO outstanding debt, while Lincoln, NE with a population of 293,000 has $30.6 million outstanding governmental GO debt. For reference demonstrating the demands on consolidated government structure, Unified Government has a population of 165,743 and $284 million in outstanding governmental GO debt, while the City of Overland Park, KS has a population of 197,000 and outstanding governmental debt of only $102 million. The Unified Government outstanding government GO debt level is comparable to the average level of debt of $282 million of the nine comparable municipalities.

General Fund Balance as a Percentage of Expenditures

Another important financial indicator is the ***General Fund Balance as a Percentage of Expenditures***, as it provides municipalities with liquidity and financial flexibility to help mitigate against financial shortfalls. As covered in Economic

Development and Finance Standing Committee, a higher level of fund balance is an integral part of credit ratings as a high fund balance is a positive indicator of fiscal flexibility. The 2018 adopted financial policies include revisions for the Government to maintain a minimum fund balance of two-months of operating General Fund expenditures for budgetary and economic uncertainties and seek to accumulate over the future years an additional one-month worth of reserves for emergencies or catastrophic events.

The Government Finance Officers Association (GFOA) recommends a fund balance of approximately 16.7% (two months of spending), but the report acknowledges that this goal is somewhat flexible, stating that ‘it may be appropriate for states and large local governments’ to have fund balances lower than the GFOA recommendation. *S&P rating criteria guidance considers 8% to 15% strong, 4% to 8% adequate, and below 4% as weak.*

At the end of 2020, the Unified Government has a fund balance reserve of 22.9% of total expenditures (not including transfers out), which represents approximately 2.8 months of operating expenditures. This level is nearly 20% points below the median percentage of 41.7% of General Fund expenditures of the observed municipalities in this report. The lowest percentage amongst the municipalities was Kansas City, MO at 19.4% and the highest is Overland Park, KS at 95%. Four of the observed municipalities have fund balances between 20% to 35%, including the Unified Government.

Municipal Government Structure

Note that, of the nine observed cities, only Columbus, GA (Muscogee County consolidated in 1970) exist as consolidated city-county governments. Several other entities, such as Augusta, GA, Denver, CO, San Francisco. CA and Pennsylvania PA were reviewed but were not included in the analysis due that their size or financial position were not compatible with the Unified Government. This structure, where the city government and county are coterminous, can pose structural disadvantages. The overwhelming majority of cities exist within a larger county, where these cities are not responsible, as are counties, for the social services and governmental functions mandated but largely underfunded by the states.

This structural issue is evident when comparing debt per capita of cities to the Unified Government that has a proportionally higher debt ratio. Yet, the consolidated structure offers advantages in the areas of strategic urban planning and economic development that can assist in growing market value; opportunities that may not be available to cities. It takes time to grow the economic vitality of a region. Some of the older consolidated governments are currently enjoying that economic success, while more recently consolidated governments that exercise prudent and aggressive growth strategies have a brighter future to which to look forward.

Charts and Figures

The following charts include the most relevant data for understanding the fiscal condition of the observed cities, and how debt and fixed costs ratios correlate with each municipality’s credit rating. Note that the entities in the charts are ranked in order from highest to lowest credit rating, from left to right.

Figure 1 below displays the percentage of ***Assessed Market Value per Capita***. The higher values demonstrate a more economically vibrant community that is better able to generate sufficiently high levels of property tax revenue to support general obligation bond financed infrastructure investments for better streets, parks, fire and police stations and the many other services provided by local governments. *S&P rating criteria guidance considers $80,000 to $100,000 strong, $55,000 to $80,000 adequate, and below $55,000 as weak.*

Unified Government has the lowest ratio at $9,552 assessed value per capita; that is, the lowest compared with the selected municipalities. Demonstrating the general lower of property values, the graph illustrates that Wichita and Topeka are between $9,000 and $10,000 of assessed value per capita.

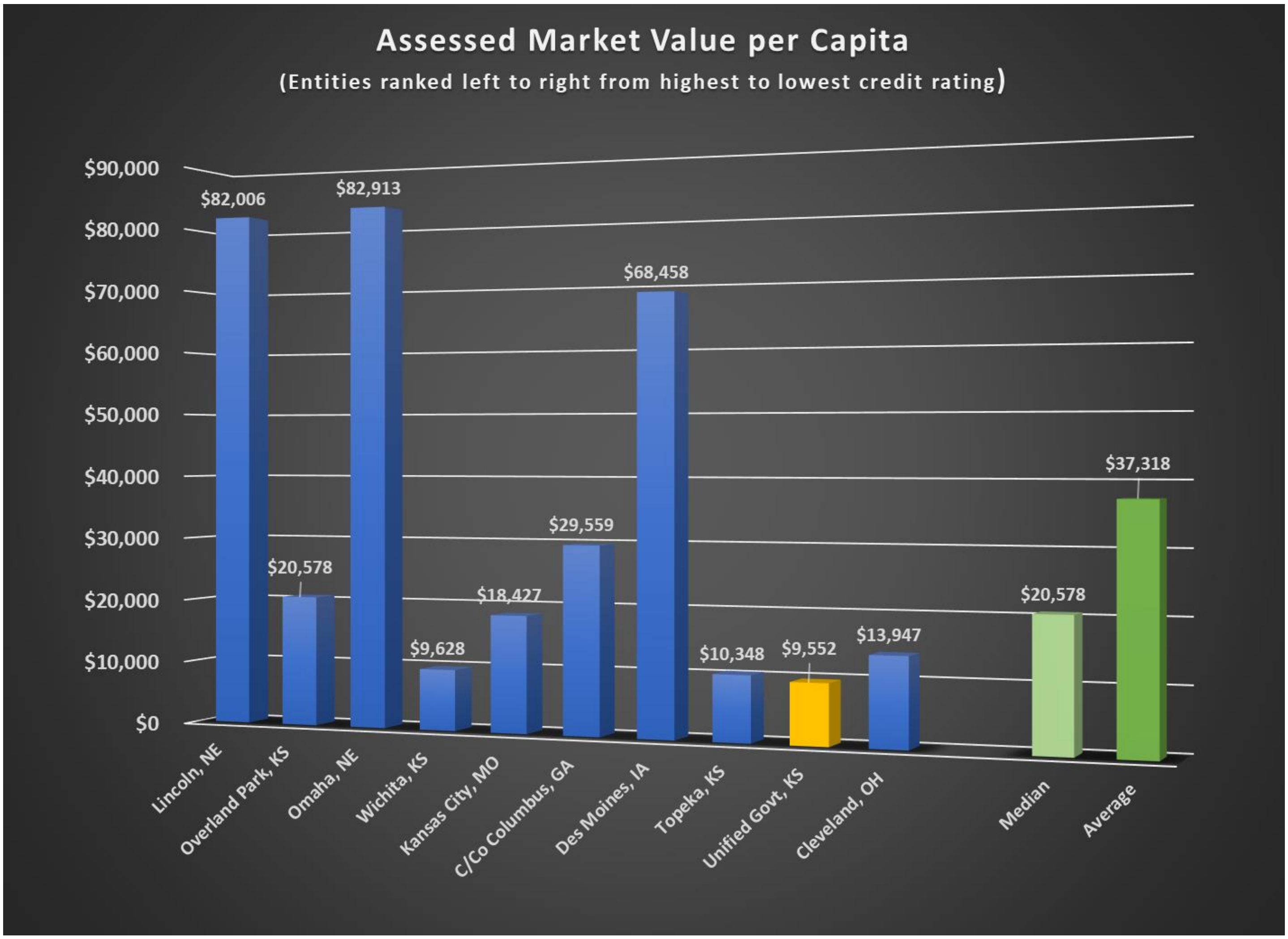


Figure 2 below displays the percentage of ***Total Governmental General Obligation Debt to Assessed Market Value***. A lower ratio correlates with higher credit scores, meaning there is less debt borrowed when compared to the total market taxable value of the municipality. Unified Government has the highest ratio with government outstanding debt totaling 17.9% of total assessed market value compared with the selected municipalities. As discussed previously, the Unified Government's structure is a city and county, typically making its service delivery load higher than cities that are within a larger county (e.g., health service costs, law enforcement, etc.).

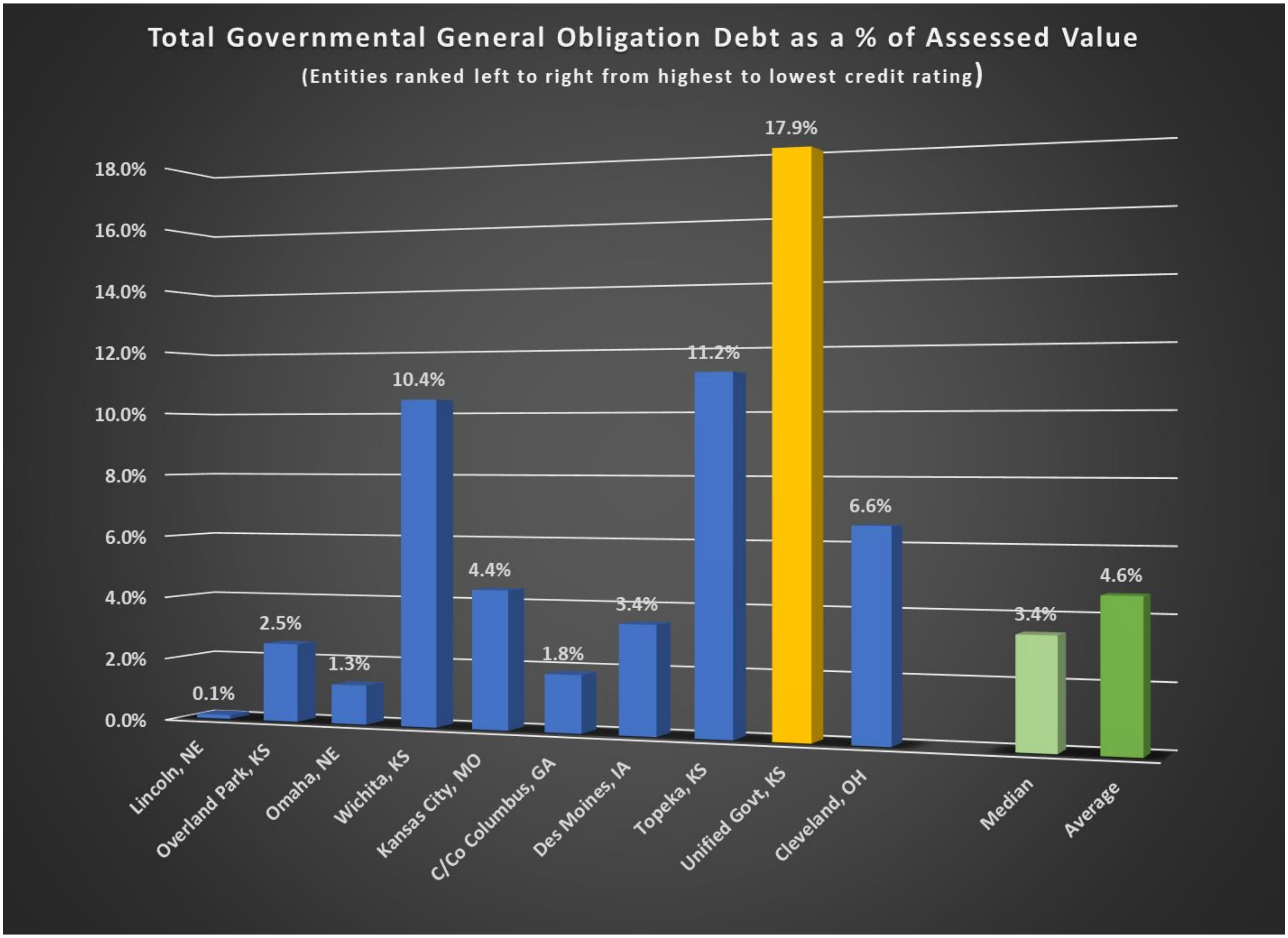


Figure 3 below shows the ratio of Governmental ***Debt Carrying Costs*** as a Percentage of Total Governmental Expenditures. This metric includes annual fixed costs for debt service, or principal and interest payments and other related fiscal agent costs. As previously discussed, Des Moines, IA is the highest at 24% of their governmental expenditures pledged to debt service payments. The Unified Government at 5% is below the median and average at 6.9% of total governmental expenditures.

A lower percentage means that a municipality has more flexibility to augment the delivery of services through annual operations to its residents.

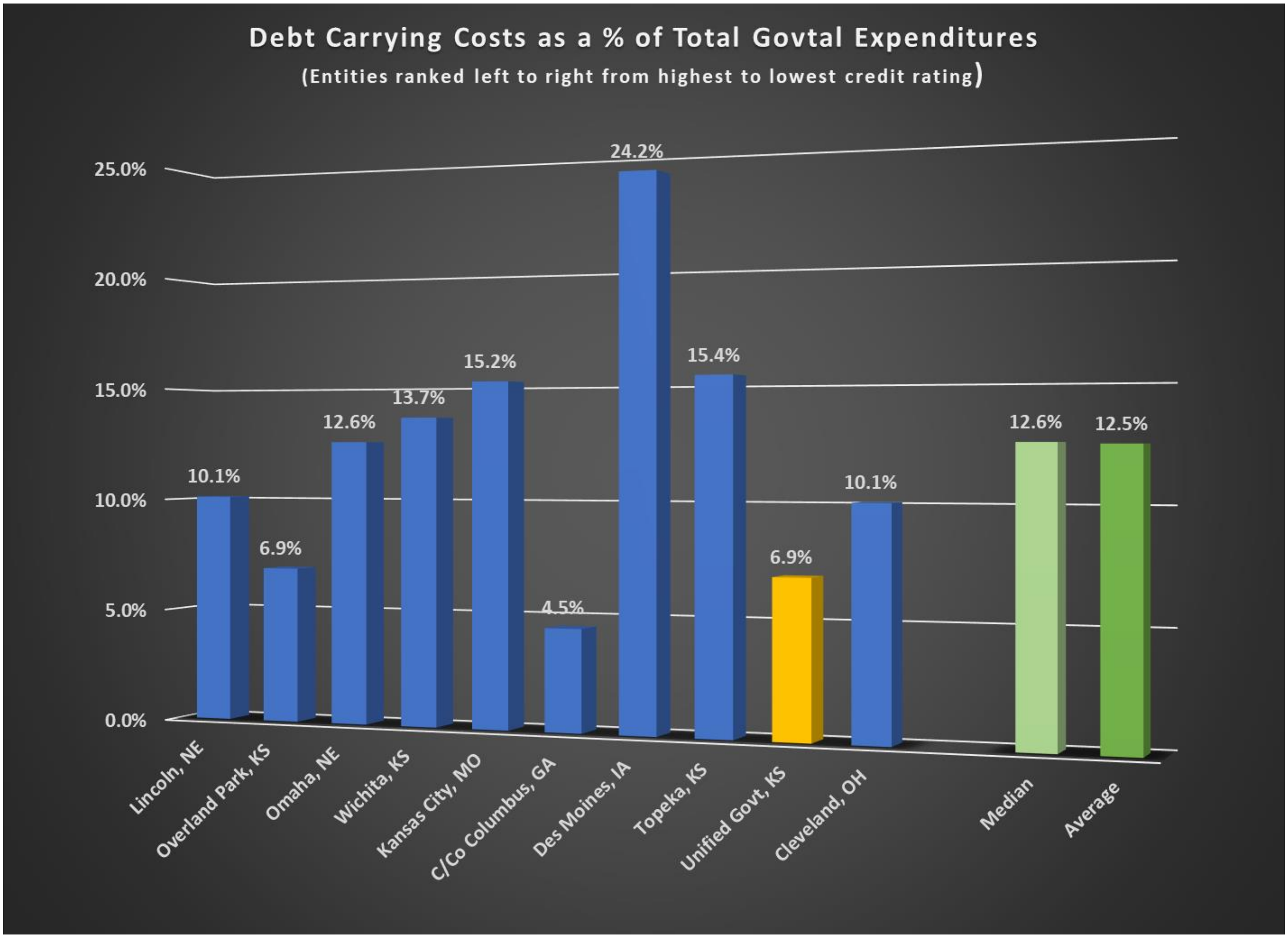


Figure 4 below highlights the Total ***Governmental GO Debt Per Capita*** for the observed cities. This does not include overlapping debt of other regional entities (county, school district, etc.). Although Unified Government is not the highest at $1,713, it still stands as an above-average debt load of $939. The highest (or worst) ratio is Des Moines, IA at $2,360 per resident. The lowest level is Lincoln, NE at $105.

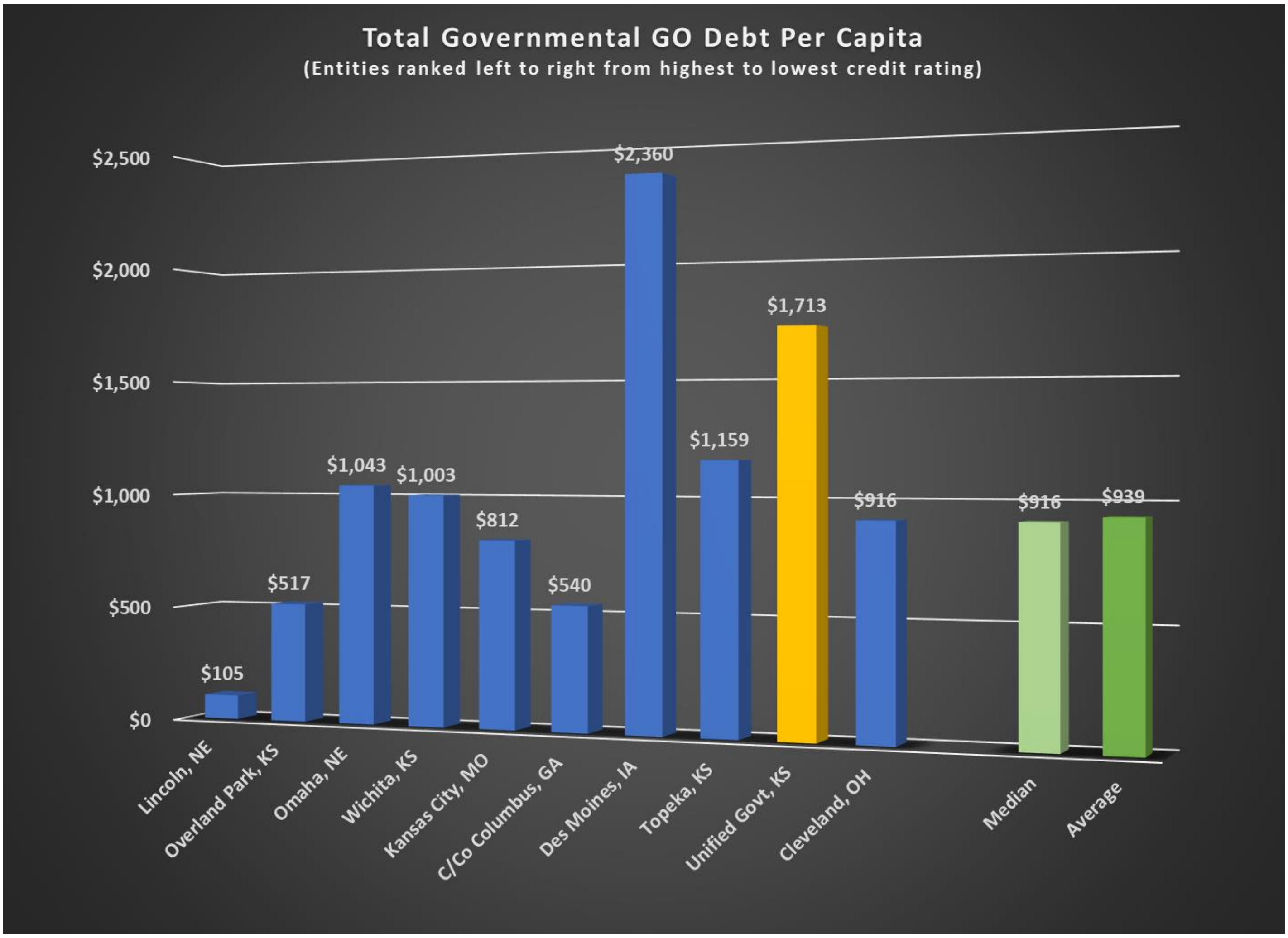


Figure 5 below displays the total of ***Outstanding Governmental GO Debt*** per municipality. This is not a per capita measure, but rather relates in large part to the size of the municipality. It also demonstrates the level of bonds issued in prior years during times when the entity had greater economic vitality. Alternatively, it is an indicator of the significant level of investment to address a long list of deferred maintenance of facilities and infrastructure needs. This measure is still a good indicator of the very significant amount of borrowed money incurred by virtually all municipalities. The Unified Government's outstanding governmental debt is above the averages of the observed municipalities and is indicative of the Government's debt affordability concerns.

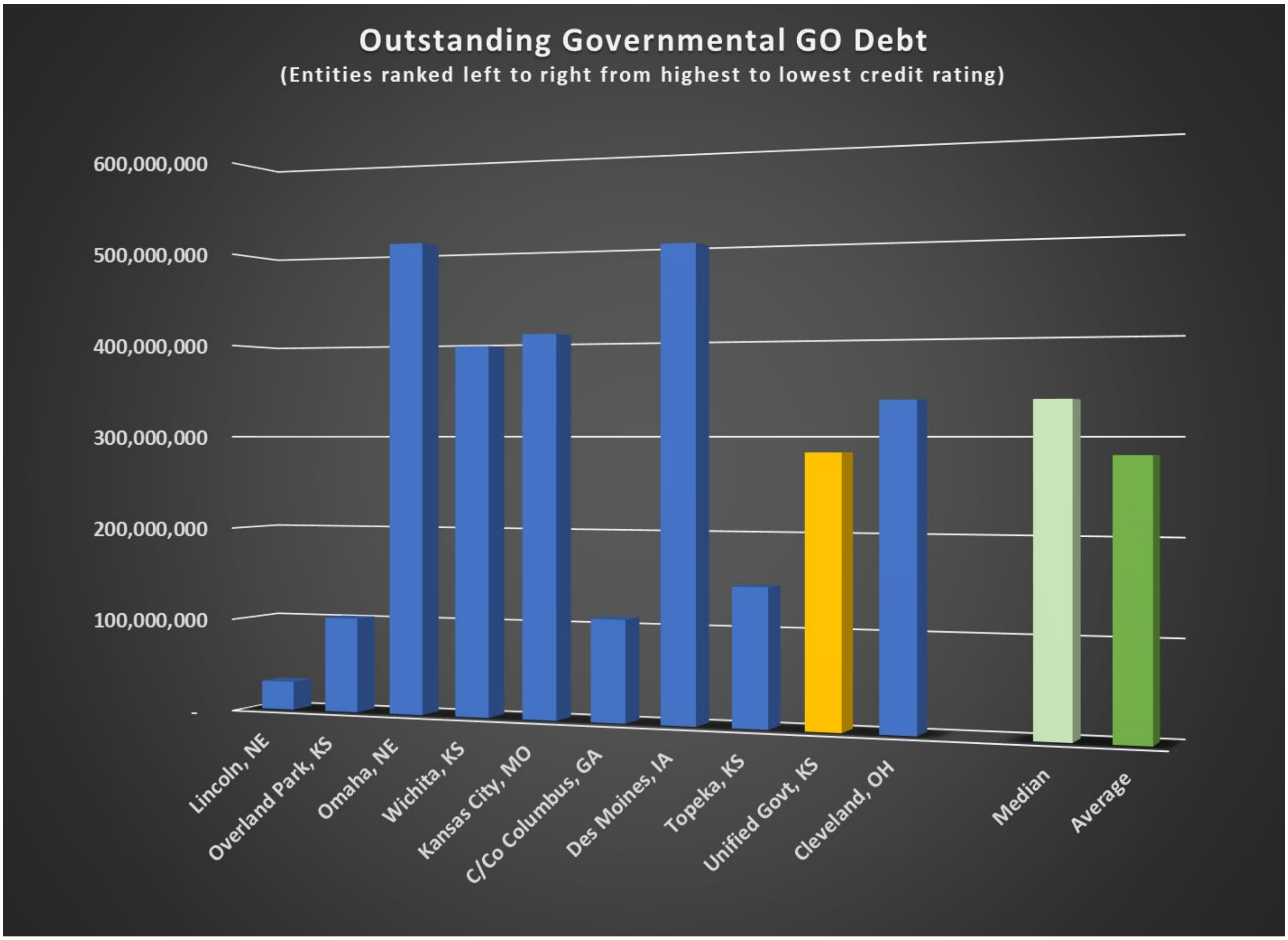


Figure 6 below shows the ***General Fund Balance as a Percentage of General Fund Expenditures***. As covered in the meeting held by the Economic Development and Finance Standing Committee, higher level of fund balance is an integral part of credit ratings, as a sufficient fund balance is a positive indicator of fiscal flexibility to respond to unexpected costs or economic downturns. The adopted financial policies includes revisions for the Government to aim at maintaining a minimum fund balance of two-months of operating General Fund expenditures and transfers and seek to accumulate an additional one-month worth of reserves over the future five years. *S&P rating criteria guidance considers 8% to 15% strong, 4% to 8% adequate, and below 4% as weak.*

At the end of 2020, the Unified Government has a fund balance reserve of 22.9% of total expenditures (excluding transfers-out), which represents approximately 2.8 months of operating expenditures. Four of the observed municipalities have fund balances between 20% to 35%, including the Unified Government.